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Politics this week

Nov 15th 2001
From The Economist print edition

War gains

AP

The war in **Afghanistan** turned quickly and decisively in favour of the Northern Alliance. Taliban forces in the northern half of the country retreated from all but a small pocket as the Northern Alliance captured the strategically important town of Mazar-i-Sharif and in due course the cities of Herat, Kabul, the capital, and Jalalabad. But Osama bin Laden's whereabouts remained uncertain.

See article: War and politics after the fall of Kabul

Hectic **diplomatic efforts** were underway at the UN and elsewhere to forge agreement on a broad-based government for Afghanistan, and to assemble a multinational military force to stabilise the country.

New York's latest tragedy

An **American Airlines** Airbus crashed on to a residential neighbourhood of Queens, in New York, minutes after take-off from John F. Kennedy airport. All 260 people on board were killed, and five on the ground are still missing. New Yorkers at first assumed it was another terrorist act, but the FBI and the Federal Aviation Administration said they had so far found no evidence of sabotage.

See article: Another air crash in New York

At a summit meeting in Crawford, Texas, President George Bush announced that he would cut the United States' **nuclear arsenal** by two-thirds over the next ten years. Russia's President Vladimir Putin said he would try to respond in kind. But the two men made it clear that they had not reached agreement on Mr Bush's plans to develop ballistic-missile defences.

See article: Russia and America touch hands

Mr Bush signed a military order allowing non-Americans suspected of **terrorism** to be tried before a military commission instead of in civilian courts. At the same time, the Justice Department asked police across the United States to question 5,000 men, mostly from the Middle East, who had entered the country legally in the past two years. Civil libertarians objected.

See article: New powers to deal with terrorist suspects

Schröder on the edge

Chancellor Gerhard Schröder's government in **Germany** was on a knife edge as rebel deputies from within his ruling coalition said they would vote against a parliamentary vote of confidence tied to his offer to send troops abroad to help the United States fight terrorism.

See article: A government crisis in Germany

Police in **Spain** detained 11 members of an Islamic group with suspected links to the al-Qaeda terrorist network.

The European Commission's annual progress report on countries striving to join the EU hinted that there might be a "**big bang**" of up to ten applicants joining at once, perhaps as early as 2004.

See article: The EU may let in ten more countries at once

In a bid to hurry negotiations with the EU along, **Poland's** new government, led by the ex-communist Democratic Left Alliance, offered concessions over migration and the sale of Polish land.

A controversial project to build a hydroelectric dam at Ilisu, in south-eastern **Turkey**, was thrown into doubt when a British building company and an Italian engineering firm pulled out. But the Turkish government said it would still press ahead.

A Mexican dynasty

A Mexican political dynasty entered a third generation. **Lazaro Cardenas**, the son of the leader of the left-wing opposition and grandson of a reforming president, was elected as governor of the state of Michoacan, in a defeat for the formerly ruling Institutional Revolutionary Party.

See article: Mexico's confused political parties

After a month of prevarication, **Argentina's** biggest opposition-run provinces signed an agreement accepting cuts in revenue transfers from the centre. The deal may help President Fernando de la Rua gain international support for a plan to renegotiate the public debt.

See article: Argentina's economic crisis

Howard's third term

John Howard's conservative Liberal-National government won a third term of office in **Australia**. His victory was attributed partly to his tough policy towards illegal refugees.

EPA

See article: A third term for John Howard in Australia

Talks between **North and South Korea** designed to lead to a resumption of cross-border family reunions broke up without agreement.

See article: The wishes of President Kim Dae Jung

Theys Eluay, the leader of a pro-independence movement in the Indonesian province of **Irian Jaya**, was found dead, believed murdered for political reasons. About 10,000 supporters held a peaceful demonstration at his funeral.

See article: A strange murder in Irian Jaya

In **Myanmar's** first major government shuffle for four years, a senior member of the military junta was sacked, together with six ministers.

See article: Changes in Myanmar's junta

Illiberal Middle East

The trial began of over 30 members of a banned liberal group, the Freedom Movement, by **Iran's** Revolutionary Court. Among other charges, they are accused of trying to divert Iran's Islamic revolution in concert with "foreign and domestic enemies".

An Egyptian court jailed 23 men, one for five years and the rest for up to three, for taking part in a **gay-**

sex party on a floating Nile nightclub called the Queen Boat.

Muhammad Dahlan, Yasser Arafat's chief of security in Gaza, offered his resignation (which Mr Arafat refused to accept) in protest at the arbitrary arrest of suspects, and the Palestinian Authority's lack of a coherent policy.

See article: Palestinian dissent

Robert Mugabe, **Zimbabwe's** president, ordered hundreds of commercial farmers whose land is designated for resettlement to stop farming immediately and leave their property within three months. The World Food Programme prepared to deliver aid to hungry Zimbabweans.

See article: Zimbabwe's farms

Jack Danforth, George Bush's special envoy, visited **Sudan** in a bid to broker a peace in the 18-year war between the government and rebels.

Several hundred young people and children were released in **Rwanda** after years of detention for alleged involvement in the 1994 genocide. Many thousands of people remain in prison awaiting trial.

In **Kenya**, three policemen suspected of kidnapping and robbery were arrested. But graft charges against a cabinet minister were quashed.

Somalia's breakaway region of **Puntland** elected a retired colonel, Jama Ali Jama, as its president.

Flash floods in **Algeria** killed more than 600 people, mainly in the capital. Algerians were enraged that the government had not unsealed storm-drains that had been blocked during the civil war against Islamist guerrillas.

See article: Algeria's floods

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Business this week

Nov 15th 2001
From The Economist print edition

Gains in trade

The world's trade ministers agreed to launch a new round of trade talks at the **World Trade Organisation meeting** in Doha, despite the misgivings of India over the treatment of poor countries and France over the phasing-out of farm export subsidies. Broad agreement was, however, reached on one issue dear to poor countries: rich countries agreed to make it easier to override patents on drugs to treat malaria, AIDS and other diseases.

See article: The Doha round

China signed up to become a member of the WTO after many years of negotiations. As part of the deal, Taiwan joined at the same time under its Chinese name, Taipei, and with no explicit recognition of its sovereign status.

Nasdaq Europe is to ally with the small **Berlin Stock Exchange**. This marks the American market's first foray into Europe. Nasdaq is still eager to team up with a bigger European exchange, possibly London's.

Running out of energy

Enron, Houston's mighty power-trading company, was taken over by **Dynegy**, a hometown rival, in an all-share deal worth some $10 billion. Enron's shares had crumbled in the wake of revelations of unorthodox financial dealings. Dynegy has saved a company that once dwarfed it, but it may yet suffer from Enron's undisclosed liabilities.

See article: See you in court

The **OPEC meeting** in Vienna, intended to shore up oil prices, ended in disarray after members put off planned production cuts until Russia and other non-OPEC countries join in. Oil prices immediately fell sharply; some analysts speculated that they could fall to $15 or less per barrel over the next few months.

Newmont Mining, America's biggest gold producer, bid to become the world's biggest. It announced an all-share offer worth around $2.6 billion to acquire Canada's Franco-Nevada Mining and a $1.8 billion offer for Australia's Normandy Mining.

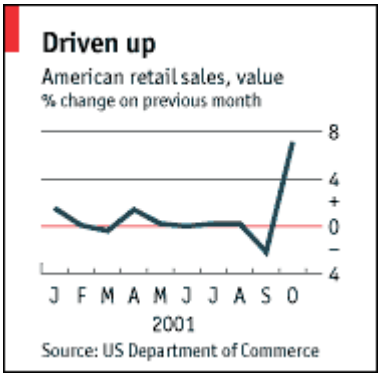
Japan Airlines, the country's leading carrier, is to take over the third-largest, **Japan Air System**, in an effort to cut costs as passengers turn their backs on airlines after September 11th.

Buying wisely?

American **retail sales** shot up by a record 7.1% in October, driven mainly by car sales, which leaped by 26.4% over the same period. General Motors extended until the start of 2002 its “Keep America Rolling” scheme of zero-interest financing on new vehicles introduced to boost car sales after September 11th. Ford and Chrysler had introduced similar offers. The scheme has clearly been a great success for now, though profitability and future vehicle sales are likely to suffer.

Americans have reacted to the slowing economy by shopping in lower-cost stores. **Wal-Mart**, the world's biggest retailer, said that sales had risen by a record 15.5% in the latest quarter compared with a year ago, pushing profits up to $1.5 billion. J.C. Penney and Home Depot also made gains.

Luxury-goods companies are usually the first to suffer as a recession approaches, and **LVMH** is proving no exception. It issued its third profit warning in eight weeks, putting the main blame for its troubles on the American market.



The price of a call

Vodafone, the world's biggest mobile-phone operator, announced pre-tax losses of £8.4 billion ($12 billion) in the six months to the end of September. The loss reflects write-offs of the value of assets it bought during the telecoms bubble. Its shares gained as its core mobile-phone services continued to perform well. Vodafone also said it would like Britain's government to improve the terms for third-generation mobile licences.

Marconi at last accepted that it had heavily overpaid for American telecoms firms acquired near the height of the telecoms boom. It announced pre-tax losses for the latest half year of a whopping £5.1 billion ($7.3 billion) after drastically reducing the value of its transatlantic assets. The companies, purchased for cash, have left Marconi with a heap of debt.

Cable & Wireless, a telecoms company, said that it would use part of its £4.1 billion ($5.9 billion) cash pile to buy back shares and pay a special dividend to the tune of £1.7 billion. The company said it would still look for acquisitions to put some of the spare money to work but said it was in no hurry.

Profits at **Siemens** fell by 76% in the year to the end of September to *euro*2.1 billion ($1.9 billion), including restructuring charges and a write-down of assets at the German engineering giant's mobile and fixed-line telecoms divisions.

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Fighting terrorism

After the rout

Nov 15th 2001
From The Economist print edition

Progress, at last, in the fighting, but politics and aid must now catch up

Get article background

AP

FIVE weeks of hard pounding, followed by a rout: the collapse of Taliban resistance in the north of Afghanistan this week was as sudden as it was welcome. All in a rush have fallen Mazar-i-Sharif, Herat and the capital Kabul, soon followed by Jalalabad and other towns, allowing map-makers to run wild with the hatching of the Northern Alliance, and the war-weary to wonder whether the entire country may not soon be rid of the dreaded Taliban. But progress brings problems and, good though the news has been for the American-led coalition against terror, the defeat of the Taliban in their southern homeland could prove much harder than their relatively easy expulsion from the north.

The benefits of this change of fortune should not be minimised. For a start, the Taliban have suffered a sharp psychological blow. They are undeniably up against the mightiest military power in the world, but they are plainly not going to prove that fervour alone can vanquish it. Doubting tribesmen may well judge that they now have little to gain from fighting on, especially since the turn of events gives the Americans much greater freedom of operation. Instead of being dependent on the embarrassed hospitality of neighbours such as Uzbekistan and Pakistan, they can establish their own bases in northern Afghanistan from which to launch sorties, provide air cover and strike directly at the Taliban.

The Americans can now, moreover, start to prove by their deeds that they are genuinely benign in their intentions towards the Afghans. They can make it possible for refugees to return to their homes, or at least to their country. They can give protection and support to the aid agencies that have been so cruelly frustrated in their attempts to reach the vulnerable before the onset of winter. They can provide aid of their own to ensure that the threat of death by famine or exposure or lack of medical treatment need no longer hang over people in the liberated parts of the country.

'Ban, 'Ban, Ta-Taliban...

Yet in their humanitarian efforts as in their military ones the Americans will be constrained by their partners, the Northern Alliance. Their unease about this rag-tag army was horribly apparent at the start of the week when word came from Washington that the alliance, now poised at last to snatch the very capital, should instead hold back: to capture Kabul, it was feared, might be to make it impossibly hard to get any Pushtuns to serve in a post-Taliban regime—the Pushtuns being the southerners from whom the country's Taliban rulers are largely drawn. Since Kabul instantly fell into the alliance's hands anyway, admittedly more like a shrivelled apricot than a ripe plum, the worrying was for naught. It still leaves America with the difficulty of handling these turbulent allies.

One risk is that by their behaviour they will alienate either local or foreign opinion, or both. Tales of massacres, rape and looting have indeed been forthcoming, especially from Mazar-i-Sharif, but so far the alliance seems to have behaved with much greater restraint in the capital than it did in 1992-96, when its men last held sway in Kabul. Since at least some of them have a reputation for extreme brutality, however, no one can be confident that vengeful score-settling or even internal rivalry will not produce new atrocities if they have free rein.

What happens if the Northern Alliance gives up?

A different risk is that the Northern Alliance may be tempted to give up. Why fight the Taliban in their redoubt, it may reason, where they will resist most fiercely and be among their own people, when the alliance can run the northern part of the country on its own? Not only would this leave the Americans open to the charge of being ready to break up and thus permanently weaken Afghanistan, it would leave unfinished the little matter of quelling the Taliban, dealing with Osama bin Laden and destroying the al-Qaeda network. Any victory that leaves the Taliban in charge of even a small part of the country will not be a victory at all.

The hope must be that the Taliban are in total, not merely tactical, retreat, but that cannot be taken for granted. The task before the coalition, therefore, is to press ahead with the military campaign while redoubling its efforts to put together an interim government that would include Pushtuns, as well as Hazaras, Tajiks, Uzbeks and the rest. This is not going to be a very democratic affair, and it is certain to contain some unsavoury characters, perhaps even some former members of the Taliban, though preferably no monsters. One crucial test for membership will be to forswear the violence of the broad-based governments of the 1990s, another to pledge to cleanse Afghanistan of al-Qaeda.

Has a new master—get a new man

Such expressions of intent, however, would matter much less if the main responsibility for peace and security in Afghanistan rested with an international body, blessed by the United Nations and at least partly composed of soldiers provided by Muslim countries—Bangladesh, Indonesia and Turkey are candidates—albeit ultimately under American command. The models exist for some of the activities that will have to be undertaken. Afghanistan's six neighbours have been meeting this week with Russia and America in “six-plus-two” talks reminiscent of the “four-plus-two” discussions that helped unify Germany. Bosnia, Kosovo and East Timor have provided many lessons in how to nurse stricken states back to some kind of health. Europeans, in particular, have become practised at peacekeeping. All this experience will now help.

One country in particular has been unsettled by the breakneck pace of events this week. Pakistan, which itself has a large Pushtun population close to the border with Afghanistan, is especially nervous about a permanent Northern Alliance ascendancy. Since many zealous Pakistanis have gone to fight with the Taliban, and since these zealots are hated by most Afghans, the nervousness is well justified. This only adds to the urgency of establishing a responsible peacekeeping force in the liberated areas. That, coupled with the provision of generous humanitarian aid, has become the coalition's most pressing task. Terror cannot be fought by war alone.

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Islam and the West

They can live together

Nov 15th 2001
From The Economist print edition

All Muslims, not just western ones, should know that life for them is all right in the West

Reuters

Get article background

IN MANY parts of the world, from the air-conditioned luxury of the Gulf to the refugee camps of Pakistan and the rain-forested islands of Indonesia, the atmosphere will change this weekend as Muslims embark on a month of abstention from food and other sensuous pleasures during daylight hours. This tradition is centuries old. What is different about this year's Ramadan is that it is taking place while Osama bin Laden is busy accusing the United States of waging war against Islam, and telling good Muslims it is their duty to fight back. The rest of the world will therefore be observing this exercise in piety, and the beliefs that underpin it, more closely than usual—with respect, puzzlement and no little anxiety.

More generally, the onset of Ramadan this year has prompted Muslims and non-Muslims alike to think harder about how the Islamic world can coexist with people of other faiths and of none; or whether, as the Taliban and their kind suggest, some aspects of Islam must inevitably clash with modernity (see article). If the question needs posing, it is because there are now loud voices on both sides that challenge the liberal viewpoint. The attackers of September 11th, and the Islamist movement that stands behind them, have proclaimed a version of Islam that is hostile to other religions and lumps together all countries of Christian heritage as “Crusaders” and enemies. Unfortunately, a few politicians and commentators in the West seemed, after September 11th, to rise to this bait and say something like: “Yes, our civilisation does differ radically from yours, and ours is better.”

Since then, wiser counsels have prevailed. Virtually every Muslim government has rejected the terrorists' interpretation of Islam, and western leaders have insisted they have nothing but respect for Islam. But on what terms, exactly, can devout Muslims expect to coexist with the followers of other faiths, or none, and with the modern world in general? Despite the recent efforts of certain western politicians, such as Tony Blair, to study the Koran, the answers to those question can come only from inside the Muslim world, where the interpretation of the faith is a work perpetually in progress.

When principles clash with knowledge

Islam shares certain dilemmas with every other world religion that has roots in a distant time and a place very different from the ones in which most of its followers now live. Which customs are immutably laid down for all time, and which may vary according to place and century? How far can the devout reconcile scientists' belief in a body of knowledge that accumulates over time with the idea that some statements hold good for ever?

Muslims, including pious ones, would say that their faith starts with certain advantages—compared with, say, the medieval Roman Catholic church—in tackling these questions. Islam has never discouraged empirical investigation. There is no exact equivalent in Muslim history of the church fathers who persecuted Galileo for his God-questioning theories.

Perhaps so, non-Muslims may retort. But hasn't the interpretation of Muslim law and tradition been entrusted to groups of elderly men who are unlikely to be open to new thinking? Some Muslims are concerned about that too. They have suggested that the job of interpreting tradition should be assigned

to a broader category of people, or even to Muslims as a whole.

That is perhaps for the future. At a practical level, however, Muslims in the West are already finding answers to the question of how to live with infidels. In practice, hardly any choose to adopt, or impose on their families, the extremes of puritanism and misogyny associated with the Taliban. But plenty freely choose to follow their faith with regard to dress and diet, and that freedom is respected. That such freedom exists would come as a surprise to zealots in many Muslim countries.

The fertile West

In fact, imaginative ideas about how Muslims should live and think today are as likely to come from Michigan or Marseilles as from the tense council-rooms of historically Islamic states. A pity: ideas—including ideas about how to be Muslim in modern times—should be flowing freely between the Islamic world's diaspora and its heartland. But all too often authoritarian regimes in the Muslim world—many of them deservedly unpopular, and manifestly incompetent—will not tolerate debate on spiritual matters. Indeed, they will not tolerate any public discussion at all.

It was clear even before September 11th that such repression was short-sighted and could not even be certain to achieve its goal of warding off violent change. Moreover, it had a side-effect, for, where political dissent has no other outlet, it will often find expression in religious fundamentalism at its most narrow-minded. This has indeed happened. And the focus of the fundamentalists' rage is often the western states that are seen—understandably, but nonetheless usually wrongly—to prop their oppressors up.

What can politicians in the West do to change this? Perhaps not much, directly. Nothing would be more heavy-handed or counter-productive than lectures from western governments on how the Muslim world should conduct its affairs or interpret its faith. But the West could reasonably ask of its Muslim allies that they should promote a fairer view of the West than the half-truths, lies and anti-Semitic nonsense that are common currency in some Muslim countries—and often in school textbooks, government-owned newspapers and the programmes of officially-sanctioned broadcasters.

The knowledge that many Muslims live as contented citizens in western countries could have a benign influence on the Islamic heartland, including its most authoritarian bits. Of course, the adoption by other Muslims of the “western” model of devout but non-fanatical Islam would threaten interest-groups—men, for example—with a stake in the old ways. But mere knowledge of the model's existence might draw some venom out of Islamists' relations with the West. That, after September 11th, would be a big advance.

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World trade

Beyond Doha

Nov 15th 2001
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Governments have launched a new trade round. Now they must make it a success

Get article background

AT LEAST they struck a deal. On November 14th, after a long night of negotiation and political brinkmanship, the world's trade ministers finally agreed to a new round of trade talks. In comparison with the debacle at Seattle two years ago, that is a valuable achievement. The world has taken one step towards freer multilateral trade in goods and services, even in agriculture. Given the prospect of the worst global recession in 50 years, this is a useful confidence-boosting success.

But, however gigantic it may have seemed to the exhausted negotiators in Doha, this first step is in fact the smallest one. The World Trade Organisation, born at the end of the Uruguay round in 1994, has been saved from the oblivion to which a failure might have condemned it. Its membership, expanded in Doha to include China and Taiwan, is marginally less likely to splinter into regional trading blocks. Poor countries have the prospect of better access to rich-country markets for their textiles and agricultural products. But all these gains are potential, not actual. Ministers have agreed only on the agenda for the trade talks and a time-frame, officially three years (the Uruguay round took seven). Successfully completing the round is an entirely different matter.

The Doha launch was almost scuttled by India. Poor countries remain deeply suspicious of the rich world's commitment to truly freer trade. They bitterly remember the Uruguay round, whose benefits went mostly to the rich. For the new talks to succeed, those suspicions must be proved wrong. Europe and America must quickly open up their markets for farm products and textiles. They must show that environmental concerns are not going to become a backdoor excuse for renewed protectionism. They must reform their oft-abused system of anti-dumping rules. And they must deliver on promises to beef up poorer countries' capacity to deal with the intricate procedures in the world trading system.

None of this will be easy. Freer trade in agriculture means further substantial reform of Europe's ridiculous Common Agricultural Policy. The imminent arrival of east European farmers into the European Union may make that reform inevitable. But it still means taking on west European farmers, above all in France, the other hold-out besides India whose intransigence almost prevented the Doha round's launch. Freer trade in textiles similarly means taking on narrow, but politically powerful, domestic interests, especially in America.

Indeed, although it was the Americans who showed the greatest leadership at Doha, they may face the biggest political problems of all in delivering results. President Bush lacks fast-track negotiating authority from Congress. Without it no trade talks can be completed; and yet the Doha agenda, particularly the promise to re-examine rules on anti-dumping, may make it even harder to secure congressional agreement. If this round is to succeed, Mr Bush must construct a new domestic consensus in favour of freer trade, and he needs to move on that fast.

Largely at European behest, the Doha agenda is ambitious. By sowing the seeds for international rules on investment and competition, for instance, it takes the WTO well beyond its old world of trade barriers. At best, this means that it could become a proper road-map for globalisation. But the risk is that the new round (and so the entire multilateral system) could collapse under the weight of too many contentious issues. It is down mainly to America, Europe, Japan and the other rich countries to make sure that does not happen.

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Terrorism and freedom

Nov 15th 2001
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Alarm bells should be ringing at the recent actions of the British and American governments

Get article background

"ROUND up the usual suspects," orders Captain Renault, the police chief, at the end of "Casablanca", the second-world-war Hollywood classic. The dapper little boss of the collaborationist French colony enjoys the kind of authority that the leaders of the American and British governments, faced with a new terrorist threat, now seem to hanker after—the power to get things done unfettered by the pesky rules of the law. Though tempting, the idea that casting aside most legal constraints is necessary to fight terrorism, or will make Americans and Britons much safer, is a delusion.

This week the British government unveiled an emergency anti-terrorism bill which it hopes to push through Parliament before the end of the year. Last month the Bush administration rushed through America's Congress a new, equally broad anti-terrorism law. Since then, the federal government has, quite literally, rounded up hundreds of people and held them virtually incommunicado.

There is no doubt that America now confronts an extraordinary threat and that, as America's closest ally, Britain also has cause to fear. The terrorists responsible for the September 11th attacks were ruthless, implacable and shrewd. It must be assumed that more attacks are possible. Faced with this, extraordinary measures are justified. A loss of privacy and more intrusive security seem inevitable. Tougher banking rules, closer co-operation between intelligence and police forces, and more monitoring of communications may be unwelcome, but they are necessary to track terrorists.

Still, it is essential that any new police powers be as limited as possible, and that the rival claims of liberty be taken seriously—even in the face of shadowy enemies. Striking this balance is bound to be tricky. Unfortunately, both governments are already failing in obvious ways to get the balance right.

Losing our trust

The British government's plan to hold immigrants suspected of terrorism indefinitely without trial—which will require a breach of the European Convention on Human Rights—is ill-conceived and unnecessary. Only about 20 people will be affected, claims the government. If this is really true, why can't the police monitor them closely, preventing them from carrying out their schemes and assembling the evidence to prosecute them? And the way the American government has dealt with some 1,200 detainees is a disgrace. Many have reportedly been held in harsh conditions, and not allowed to contact a lawyer or to notify relatives of their arrest. The Justice Department is not only refusing to reveal their names, it has even stopped saying how many have been arrested.

Britain's home secretary derides doubters as living in an "airy-fairy libertarian" world

The manner in which some of these new measures have been introduced is also alarming. David Blunkett, Britain's home secretary, has sneered at anyone expressing doubts about his new measures as living in an "airy-fairy libertarian" world. John Ashcroft, America's attorney-general, recently imposed a new change in prison rules allowing conversations and letters between terrorist suspects and their lawyers to be monitored without a judicial warrant, suspending the constitution's sixth-amendment right to effective counsel. This move is drastic, as well as unnecessary. There are already ways to investigate and prosecute lawyers

engaged in criminal conspiracies. Mr Ashcroft tried to sneak his rule past the public with little fanfare and no reference to Congress.

This is not the way to fight terrorism. Infringements of civil rights, if genuinely required, should be open to scrutiny, and considered a painful sacrifice, or a purely tactical retreat, not as the mere brushing aside of irritating legal technicalities. Those who criticise such measures should be given a careful hearing, even if their views must sometimes be overridden. After all, one of the chief aims of most terrorists, including Osama bin Laden and his ilk, is to undermine the long-established, hard-won freedoms of liberal societies. In a democracy, one of the chief aims of those in office should be to preserve them.

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Euthanasia

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Nov 15th 2001
From The Economist print edition

The case for regulated mercy-killing

Get article background

NOBODY chooses the hour of his birth, but many would like a say in the manner and timing of their death. A good end is one in which an individual is ready to die and can retain as much control as possible over the whole process, supported by loved ones and able to leave life with both dignity and privacy.

This is what Diane Pretty, a British woman with a fatal degenerative condition called motor neurone disease, wants to do, by committing suicide. But because her illness has left her paralysed, she needs assistance to do it. Although English law permits suicide, it punishes those who aid and abet it. So Mrs Pretty's lawyers went before the House of Lords this week to argue that it should overturn an earlier appeals-court ruling and allow her husband to help her to commit suicide without fear of subsequent prosecution.

There are strong arguments against this sort of assisted suicide, whether it takes the form of the withdrawal of life-sustaining treatment or of more active measures such as the administration of lethal injections. Many people object to it on moral or religious grounds. Some doctors believe that it violates their ethic to “do no harm” and that it would further undermine an already fragile doctor-patient relationship. Others worry that people who cannot afford expensive care may see no alternative to their predicament other than suicide. And there is also the slippery-slope argument: once assisted suicide is permitted for the terminally ill, vulnerable members of society, such as old people regarded as a nuisance by their families, may all too easily be pushed down it.

But the arguments for legalising assisted suicide are stronger. Democracy rests on the right to self-determination, so long as it does not compromise the welfare of others. People like Mrs Pretty, who are nearing death with their minds intact but their bodies falling apart, have a right to end their lives in as humane a way as possible. The alternative of “do-it-yourself” euthanasia can lead to botched attempts and greater suffering, much as “backroom” abortions once did.

The medical technology that has successfully prolonged Mrs Pretty's life to this stage also offers the most humane means of ending it. What is needed in such cases is a robust system of medical and psychiatric assessment, along with counselling, to ensure that only those who have completely thought it through are eligible for assisted suicide. The Netherlands, which legalised euthanasia earlier this year, requires patients who want it to gain the approval of two doctors, and it also has a formal assessment procedure after the fact. Oregon, whose more restricted system of assisted suicide is now under attack by the federal government, has even more hurdles in place. This may seem over-bureaucratic, but, since suicide is irreversible, it is better to err on the side of caution.

Dying with dignity

Although voluntary euthanasia should be permitted, it should be only part of a broader, better system of dealing with death, including improved pain-management and psychological support. Legal or not, euthanasia happens all the same, with doctors quietly colluding with patients and their families, and the occasional case dragged before the courts. Far better to bring it into the light, and develop a more rigorous and transparent procedure for dealing with an increasingly common fact of modern life.

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Letters

Nov 15th 2001
From The Economist print edition

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The recent past

SIR – As a university lecturer who has taught about nationalism and European integration for many years, I can attest that my experiences accord with your conclusions about the narrowness of history teaching in English schools ("Achtung! Too many Nazis", November 3rd). Students often arrive at university with some knowledge of the Nazi period but invariably have no idea about steps taken in post-war Europe to prevent such catastrophes happening again. I have never met an undergraduate who had learned about Jean Monnet, Robert Schumann and others at school. As British youngsters abandon the study of European languages in droves and have their views of Europe informed by the largely Eurosceptic media it is right to draw attention to the imbalance in the national history curriculum.

Mark Wise
University of Plymouth

SIR – As an A-level history student, I feel that the syllabus is far too narrow. Little time is devoted to pre-19th-century history. As a result, everything that we study—the Nazis, Stalin and the cold war—is so out of context that I have to read not just "around the subject", as we are meant to do, but also "around" the preceding centuries.

Rory Geoghegan
Maidenhead, Berkshire

SIR – When I accompanied a group of German students to Britain as part of an exchange programme a few years ago we were asked not to take part in lessons about Nazi Germany. It is, of course, necessary to learn about this dark part of history to understand the world today, and an opportunity was missed for the students to share their concerns. That this was needed the German students found out later when they went to a disco and were greeted with cries of "Heil Hitler".

Heinrich Holting
Hagen, Germany

SIR – You say that Britain's prime minister is "acting like a well-mannered butler to the American president" ("History lessons", November 3rd). Throughout the crisis after September 11th, I have been consistently impressed with Tony Blair's speaking ability and the content of his speeches. If Mr Blair is indeed no more than a butler, then he is Jeeves while George Bush is Bertie Wooster.

Mark Schumann
Pacifica, California

Alternative energy

SIR – Drilling for oil in the Arctic National Wildlife Refuge would increase and prolong America's dependence on the difficult-to-defend Alaska pipeline ("How much would it really help?", October 20th). In early October, an inebriated miscreant shot a hole in the pipeline shutting production for days. Imagine what a band of sober terrorists could do. Even if the pipeline could be secured from attack, Arctic production would not significantly lessen America's thirst for foreign oil. As the Middle East's share of world production increases, the economic and security risks will rise accordingly. The only sure way to

increase energy security is greater energy efficiency, which will buy time to diversify America's energy portfolio with hydrogen and other alternatives to oil.

Jim DiPeso
Republicans for Environmental Protection
Kent, Washington

A cute accent

SIR – As a linguist I was fascinated by the obituary of Kenneth Hale (November 3rd). I have always boasted that I could master the rudiments of any language in two days. I wish I had met Mr Hale to see how he does it in only 15 minutes. I do not know how good his accents were but one of the secrets is a good sense of mimicry and the ability to hear the music of each language. It is remarkable how well one can communicate with a basic 300 or 400 words and all the permutations thereof, if the words are pronounced authentically.

Vivian de Mesquita
London

Life on Mars

SIR – You miss the point about manned space flight. While it is true that sending people into space is "dangerous and costly" it is certainly not "scientifically useless" ("Unmanned", October 27th). The problem with the manned space programme is not so much that it is an expensive waste of money as that it lacks a serious goal. Rather than wasting billions of public money on the International Space Station, which as you rightly say is of very dubious scientific benefit, NASA should embark upon a programme of manned Mars exploration. Although Mars can be explored by unmanned craft, there is only so much that can be achieved with robot eyes and remote control. The search for life on Mars (past or present), which few would argue is scientifically useless, would be greatly enhanced by the skill and judgment that only a human expert could bring to the task.

The space station should be killed and the shuttle, which should never have been developed in the first place, should be phased out. But to give up manned space flight entirely would be a mistake. Since the end of the Apollo missions, the manned programme has drifted without any purpose to guide it.

Mark Eaton
Vancouver

SIR – You quote the mantra of NASA's former chief, Daniel Goldin, as "faster, better, cheaper". I have heard the same saying at every high-tech firm I have worked at, but in its unexpurgated form, familiar even to engineering students: "Good, fast, cheap—pick two". Perhaps NASA is best advised to stop ignoring the first principles of sound project management, and hit the books again in both accounting and engineering.

Thomas Smith
Fairfax, Virginia

Be nice to Graz

SIR – As a member of Graz city council responsible for cultural affairs, I must defend Graz and its people against your allegations ("Another powder trail", October 20th). Austria's second-largest city will be European cultural capital in 2003 and the Styrian autumn festival is an avant-garde event with an international standing. To say that there were heroin dealers among the brass bands and folk dancers is not only foolish and wrong, but also a defamation of the city and the entire region, and an affront to the people living here.

The fact that Graz is a gateway for contact with the Balkan region can present difficulties, but it is also a source of pride. To a significant extent, it is why our emerging culture, for which Graz is known all over the world, is not boring and uniform. Our motto is "diversity, not dull simplicity". We are, of course, aware that drug problems can arise in a city with a population of some 230,000 including 40,000 students but they are quite insignificant compared with other cities. The problem is not being ignored; it would be naïve and dangerous to do so. We are dealing with it responsibly and with selective measures.

Siegfried Nagl
Graz

SIR – How much do you pay your journalists that they can afford cars which take them the 200km from Vienna to Graz in “less than an hour”?

Matthias Kettemann
Graz

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War and politics in Afghanistan

Now for an equally hard part

Nov 15th 2001 | ISLAMABAD, KABUL AND WASHINGTON, DC
From The Economist print edition

EPA

The sudden capture of Kabul has left those on the winning side a host of fresh problems: order, government, humanitarian aid. And the war is not over

Get article background

ONE terrorist bastion, the Afghan capital, Kabul, was taken this week. That brought urgent political issues. Who was to keep order there? What future government could be put together, for a country a large part of which is now freed from the Taliban, of a sort acceptable to the rest? And it left the war, with other bastions still to fall, and Osama bin Laden, the main target, still at large. And, by the way, a country in chaos had still to be fed. George Bush's administration, as taken by surprise as any Joe Citizen by the Taliban's flight from Kabul on Monday night, barely took breath to rejoice before plunging into this new maze—one made more baffling by the new force of its regional allies' rival hopes.

The Northern Alliance, which actually did the taking, had already snubbed the Americans by doing so: go up to Kabul but keep out, they had told it, and had assured Pakistan that that would happen. The alliance marched in. Pakistan, which will have to live with the results long after other outsiders have gone home, urged on Tuesday that Kabul should be “demilitarised”, declaring that the Northern Alliance troops “must not” hold it. Eyes swung to the United Nations: could it assemble a—preferably Muslim—force to keep the peace? Maybe, but the alliance troops stayed put.

And already their political leaders were acting governmental. Let “all Afghan groups” come to Kabul to discuss the future, they said; they, no outside agency or power. Burhannuddin Rabbani, head of what still, in diplomatic fiction, is the country's government, declared a general amnesty (except for the Taliban's leader, Mohammad Omar, and Mr bin Laden), as if fiction were now again fact. By midweek, the Taliban's retreat seemed to have become rout: one hostile local leader held Herat, in the west; another controlled Jalalabad, on the road from Kabul to Pakistan; even the Taliban stronghold of Kandahar, in the south, was at least under threat. All of which made the war easier, but brought the political future overnight to the diplomats' front door.

Rivalries

It may also have made their task easier, however. Afghan rivalries were yet to be sorted out, but at least the Northern Alliance—ethnically a grouping of minorities—was not the only non-Taliban local force around. The Pushtuns of the south (and of Pakistan's border areas) remained uneasy: the Taliban's supporters were mainly Pushtun. But at least there was a counter to any hope Mr Rabbani might have of simply taking over—a “totally mistaken” hope, said a (Pushtun) former foreign minister now close to the former king Mohammed Zahir Shah. From his base in Rome, the aged ex-king declared he would return “as a servant of his country”. Humph, said the northerners. They say they would accept a broad-based government. But their leading general is running Kabul, and Mr Rabbani, due there on Thursday, has his own ideas of what “broad-based” means.

The UN secretariat too has ideas. First, a small but broad gathering of local leaders, held perhaps in some Gulf city, to set up a provisional “council”—not even a government—which, in time, would call a *loyajirga*, a grand tribal gathering, to pick a new head of state and organise a new, transitional government to run the country for perhaps two years. Later, a constitution would be drafted, and a second *loya jirga* would approve the result. And such divisive notions as elections? Wisely, the UN is leaving such thoughts for the future.

Would Taliban “moderates”—there are some—have a role? The United States has long, if unhappily, thought they should; so does the UN. The Northern Alliance refuses; it calls Mullah Omar, along with Mr bin Laden, a war criminal,

Will Taliban “moderates” have

and is little inclined to draw delicate distinctions. Western interest may wane as the influx of the media reveals just how nasty Taliban rule has been.

a role in governing Afghanistan?

Turning these ideas into facts is another matter; much depends on the Northern Alliance and how far it can be squeezed. Meanwhile, there are immediate matters to be seen to. One is order (law can wait). The alliance has been squeezed hard by the Americans to keep its soldiery under control, no normal practice among victors of Afghan wars. The squeeze seems largely to have worked, except for a massacre of 100 or so Taliban supporters in Mazar-i-Sharif, the first big city captured in the northerners' sudden breakthrough.

On its side, the alliance, once in Kabul, took some steps to win support: music can now be played, kites be flown—a popular sport—and women, within decent limits, go unveiled. And men can at last shave their compulsory Taliban-length beards. Oh, and girls can go to school, when and if schools are open, roofed, staffed—do not suggest furnished or equipped—and ready to welcome and teach them.

These are more than cosmetics. The enthusiastic welcome shown by some in Kabul for their self-proclaimed liberators was maybe in part wisely put on for the occasion. But there is no doubt that the Taliban's puritanical zeal, and the ferocity with which it was imposed, had cost them support. To be a pious and self-respecting Muslim is one thing; to have those virtues rammed down one's throat is another, as a look at the past decade's anti-extremist reaction in Iran might have shown.

A psychological boost is welcome, but it is not food, water, electric power—or order

But a psychological boost is not food, or water, or electric power; nor is it order, an even rarer commodity when cities change hands in Afghan wars (and one reason why the Taliban, who did impose it in the 1990s as they won power, were at first often welcomed). Much attention was being turned by the UN and others this week to the practical details of life.

Roads are now open from the outside world to northern Afghanistan (and thence Kabul) and, to some extent, to the north-west from Iran. And agencies, despite some looting of their vehicles and warehouses by the retreating Taliban—and no doubt others, in the disorder—are ready to act. But with winter setting in, and armed men in abundance ready to work mischief, it will not be easy to bring in the 50,000 tonnes a month of food that the UN thinks necessary.

Peacekeeping and mere policing require organisation from the ground up; more exactly, from the top down. The UN is trying to put together a force for this purpose. In a politically ideal world, it would be made up of units from Muslim countries. In the real one, a transitional force will be organised and largely manned—with UN blessing—by western countries. Britain, which has had a few troops making war on the ground, stands ready, it says, to send thousands for this no less necessary purpose. Turkey too could be a volunteer. Among the overtly Muslim countries, the Americans hope for help from Bangladesh and Indonesia. And it would be remarkable if Pakistan did not ultimately join in. As their hosts of Afghan refugees show, Pakistan and Iran have vastly more to lose from disorder in Afghanistan than do any other outsiders.

The fighting

Yet the fact that these are the new worries shows how far and fast things have moved this week. The bombing of Afghanistan at first seemed mainly to win propaganda victories for the Taliban, as civilians died—not many, but one or two is enough on a television screen. Then came the bombing of Taliban front lines: a more acceptable target, but still one whose main result, to outsiders, seemed to be dust in the sky. When would the Northern Alliance, forever “poised to take” Mazar-i-Sharif, actually move what looked like its couple of tanks and a tiny stage army of men?

Western television-watchers were not alone in their doubts. As soon as the military campaign began, strategists had cautioned against dreams of a speedy victory. The Taliban forces, they said, might well abandon Kabul quite soon; they had never much liked cities, but knew all about hit-and-run warfare from the hills.

Then, suddenly, the Northern Alliance did move. Mazar fell, a strategic point which the Taliban had defended quite tenaciously; then, in a dramatic five-day offensive, other cities, and then Kabul. Even then, as the alliance marched, almost unopposed, into the city, the doubts were not over. But it was hard for anyone involved in the campaign against them not to share the euphoria—certainly the Pentagon did so, though the White House sounded a more cautious, political, note.

Yet was all this merely a tactical withdrawal? It seems not. When the tide turned against them, the Taliban made little effort to defend their urban strongholds; any last-minute fighting was done mostly by foreign volunteers, who paid with their lives. As the alliance troops entered Kabul, the bodies of two Pakistanis and three Arabs lay on the road; they seem to have been the city's last defenders.

By November 14th, the alliance was claiming that the Taliban had lost control even of Kandahar, after a local uprising and a march on the city by opposition forces who had seized control of the airport; and that Pakistani and Arab fighters for the Taliban had been airlifted out of besieged Kunduz, the last Taliban enclave in the north. Certainly, in the last few days before the flight from Kabul, hundreds of Taliban conscripts deserted. Many simply abandoned their posts, got into trucks and fled for their lives, leaving behind their blankets and teapots.

The northern allies, in contrast, had been strengthened not only by heavy American bombing of their enemies but by the arrival of Russian-built T-55 tanks and armoured cars. From early on Monday, it looked, from outside Kabul, as if the alliance forces' fire was being well co-ordinated with American air attacks. Fighter-bombers wheeled and dived in the sky, while billowing clouds of dust erupted under the impact of bombs from B-52s. The northerners' armour finally moved forward around 4pm that day. By midnight the Taliban had abandoned the city.

And now? Afghanistan is a large country and the total size of organised fighting forces has been quite small (perhaps 50,000 on the Taliban side, 15,000 for the northern allies, when the war started); so lines of defence tend to be thin, and when they break, vast swathes of territory can change hands very quickly. But does that mean the Taliban are a spent force?

Not necessarily: the Russians in their days there may have imagined the equivalent. As a British defence consultant, Paul Beaver, points out, the old regime's forces could be difficult to root out of their mountain hiding places. But the onset of winter could work against them. Technology has advanced in the past 20 years. “They will have to light fires to keep warm, and with modern surveillance equipment, it should be possible to trace them,” he says.

What about the biggest prize of all, from the American point of view, the hoped-for capture of Osama bin Laden and his fellow leaders of the al-Qaeda terror network? While they remain an elusive quarry, even some of their best friends appear to be abandoning them. A month ago, American officials viewed al-Qaeda and the Taliban as a single, integrated fighting force. Donald Rumsfeld, the defence secretary, was making the opposite point this week. He said intelligence reports suggested a strain in relations between Mullah Omar and al-Qaeda, as they squabbled over supplies.

Osama bin Laden and al Quaeda remain elusive, but some of their best friends may be abandoning them

Ahmed Rashid, author of a book on the Taliban, sees a “very high” chance of Mr bin Laden being betrayed by some of his erstwhile allies in southern Afghanistan, which has hitherto been the regime's power base. Some of the many defectors from the Taliban may well have good information about him. Local commanders know which way the wind is blowing. It was thanks to one such turncoat that American helicopters on Wednesday rescued the eight western aid workers held by the Taliban for “spreading Christianity”.

In Washington and London, government officials seemed keen this week to emphasise that the war was not over, nor the danger from al-Qaeda. The warning of the Russian invasion is there: it took the Soviet army a week to over-run Afghanistan in 1979. It then spent a decade paying a heavy price for trying to stay there, as even Afghanistan's famously quarrelsome people stood more or less united against it.

This time, it's true, things are different. The people who took Kabul were Afghans, not outsiders; and the country's new masters, both local and international, should be able to gain some moral authority by moving swiftly to bring it food, shelter and order. Yet the fate suffered by Pakistani, Arab and Chechen volunteers on the Taliban side confirms one ancient truism about Afghanistan: that the energy with which Afghan forces fight with another is nothing compared with the fury with which they will turn on anyone from outside the country who is perceived as an occupier or invader. The organisers of the large international peacekeeping force now being put together for Afghanistan had better make sure that most Afghans want it, and stay wanting it, to be there.

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Islam and the West

Never the twain shall peacefully meet?

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From The Economist print edition

Not if Osama bin Laden or others who think like him can prevent it. Yet over the centuries it has often happened—and it happens constantly today

Get article background

AP

Western women, Muslim women, all in Buddhist Thailand

IS IT really a clash of civilisations, under the flags of rival religions? Could it become one? Osama bin Laden has been determined to provoke such a clash. His allies have met military defeat. But ideas do not have to collapse when armies do. One day, he—or others like him—may yet succeed.

Until September 11th, that seemed unlikely, almost preposterous, for all the rise of Islamic feeling in the past couple of decades. Granted, a rather old-fashioned sort of geopolitical competition was gathering pace in the resource-rich heartlands of Eurasia; but whatever factors drove this competition, religion was not among them. In quarrels over the Caspian, Orthodox Christian Russia had made common cause with Shia Muslim Iran, even as Russia waged war against some of its own Muslim citizens. Partly in response, Israel and Turkey—a committedly secular state, but one of Muslims—had strengthened their ties, with the blessing of their common friend, the United States, whose people are mostly Christians. In the Caucasus, Georgia—an ancient Christian nation—got on better with Muslim Azeris than with its Armenian co-religionists. And the “Christian West” had united in support of Muslims in Bosnia and Kosovo.

Nor was this new. In the 1850s, when Europeans took their Christianity far more seriously than most do now, France and Britain had united to aid the overtly Muslim Turkish empire against Russia. Even very recently, it sometimes seemed that the old rivalry between Russia and the western powers (led this time by America) was simply continuing under a new guise, with each side picking its own friends in the Muslim world (the fundamentalist-Muslim world included) and exploiting that world's internal rivalries.

Afghanistan had been no exception: as in the 19th century, competition for influence there had more to do with geopolitics than religion. When the Taliban took power in 1996, they were instantly condemned—as products of an unholy alliance between America, Saudi Arabia and Pakistan—by the religious establishment in Iran; and they were given a cautious welcome in Washington, especially by those who felt that any ally was worth co-opting in the broader cause of reducing Russian influence. Whatever the logic of this many-sided game, it was not a contest of Muslims versus the infidels.

Enter Osama bin Laden

Osama bin Laden and the network of Islamic fundamentalists he heads want to change this complex picture and make it a simple one. Making artful use of history, theology and current geopolitics, he has, in effect, urged all the world's billion-odd Muslims to bury their internal differences and consider themselves at war with all the world's Christians and Jews.

In his efforts to galvanise and unite fellow Muslims, he has made a careful choice of themes. His self-proclaimed quarrel with the Jews is not only, and perhaps not even mainly, about the fate of the Palestinians: he has focused instead on those places in Jerusalem that Islam considers holy, especially the Temple Mount, which is both the most sacred of sites for Jews and revered by Muslims as Haram al-Sharif, the place where the Prophet made his ascent to heaven. Mr bin Laden's quarrel with what he calls

the Christian world is also about holy places. American troops have remained in his native Saudi Arabia since the Gulf war of 1991. Far though they are from any sacred sites, he says they are “occupying” the holy city of Mecca.

Holy ground is among Mr bin Laden's carefully chosen themes

For anyone determined to exacerbate division and make compromise impossible, the issue of holy ground is indeed well-chosen. As weary American diplomats found last year as they tried to make peace between Israelis and Palestinians, there are some questions to do with sacred geography that cannot be finessed: in the end, a given spot must be controlled by one side or the other. And Mr bin Laden may calculate that, in the case of the Temple Mount, no conscientious Jew or Muslim could be indifferent to the outcome.

By labelling the entire western world as “Crusaders”, he has artfully harked back to the time when Christians too were making non-negotiable claims for sacred real estate in what were by then Muslim lands. Most Christians today—as did some even at that time—would say the Crusaders had misread their own faith. Its practice is not dependent on access to holy places; nor, even if it were, need access depend on political control over those places—Christian pilgrimage to Jerusalem continued long after the Arab conquest in the seventh century, and later under the Ottoman Turks.

Still, there are good reasons why al-Qaeda's rhetoric homes in on memories of the Crusaders; the medieval ravages of western-Christian armies are still remembered by Muslims (by eastern Christians and Jews too, indeed) in the Levant. The very word “Crusader” recalls a time when the western-Christian world aspired to be a monolithic power and one that often defined itself in opposition to the “heathen” world—in practice, that of Islam.

To tug at the historical heart-strings even harder, Mr bin Laden has reminded followers of the glories of al-Andalus, today's Spain, where in cities like Granada and Cordoba Muslims ruled what were, a millennium ago, the most civilised places, as measured by artistic and scientific accomplishment, in Europe; places later taken by Christian rulers who ruthlessly suppressed most traces of the Islamic past—as any educated Muslim knows.

The subliminal message is that Muslims, who once ran the most flourishing state in Europe, should not put up with western imperialism, which may no longer exist in its literal sense but is still said to persist in the vaguer form of political, cultural and economic influence.

The appeal of bin Laden

From the viewpoint of such would-be polarisers, things have not gone too badly since September 11th. The war of weapons may be lost, but not necessarily that of propaganda. Right after September 11th, most Muslims seemed united with the West in condemnation of the outrage, readily rejecting the idea that Islam could be invoked to justify a mass murder of civilians. But that unity soon proved shaky.

It is true that the war in Afghanistan has pitted one group of Muslims—the Uzbeks and Tajiks of the Northern Alliance—against a particularly zealous group of co-religionists known as the Taliban. The northern allies enjoy the whole-hearted support of their ethnic kin in the former Soviet Union, Uzbekistan and Tajikistan, these last two both historically Muslim places. And one country of Muslims, Turkey, has promised to send troops to the American-led war. Yet even those Muslim countries inclined, for geopolitical reasons, to support the struggle against terrorism hesitated to do so.

Iran, for example, disliked the Taliban as much as ever; but neither its religious nor its political leaders felt able to back the western-led military campaign openly. The attitudes of most Arab states, including pro-western ones, ranged from lukewarm to ice-cold. Why? Because Iranians and Arabs, Shia and Sunni, alike saw how Mr bin Laden's views and videos appealed to their own citizens.

He has denounced the new American-Russian partnership against the Taliban as a “Christian” alliance. To most westerners, that is absurd. Has Christianity anything real to do with the self-definition, or international posture, of America or Russia? Even if it did, how much have George Bush's clean-shaven, clean-living Methodists to do with the incense-burning, icon-kissing world of Russian Orthodoxy? Yet when television viewers in Rabat or Cairo, Islamabad or Jakarta, see Russian-built tanks and American aircraft going into battle against the Taliban, Mr bin Laden's propaganda may look quite plausible. And some in all those cities plainly accept it.

The answer

Given that al-Qaeda is using religious and historical arguments, they need to be countered by arguments of the same sort. It is not enough for westerners to argue that past history is past, or that religion is a private matter. In the West, maybe; not for Muslims.

So where are the best counter-arguments to be found? One promising place to look, surely, is among the large number of people who do not fit into the dualist vision that Mr bin Laden is propagating: Christians with ancient roots in the Middle East, and Muslims who have put down deep roots in western countries.

Few as they are by now, the Christians of the Middle East are more than a historical curiosity. They have their own profoundly-held beliefs about the history and heritage of their region, beliefs that serve as a counterweight to the enduring legacy of the Christian polarisers of the Middle Ages—the Crusaders—and also to the Muslim would-be polarisers of today.

Take the conquest of Jerusalem by adherents of the new-born Muslim faith in 638. Many western accounts of this event unconsciously reflect a Christian assumption that it was a great historical disaster. For Middle Eastern Christians, however, the Arab conquest of the Levant, and the subsequent articulation of Christian liturgy and teaching through the medium of Arabic, was a proud and central chapter in their communities' history.

Or consider the arguments which still rage over the heritage of Muslim Spain. Muslim historians accuse western historians of playing down the extent to which the revival of science, mathematics and philosophy in medieval Europe was stimulated by the contributions of brilliant Muslims like Averroes and Avicenna. But Arab Christians quietly add that these far-seeing men were standing on the shoulders, among others, of the caliphate's Christian community, loyal subjects who just practised a different monotheism.

In modern times, it was often the Christians of Lebanon, Palestine and Syria, with their obvious stake in state-building based on ethnicity rather than faith, who led the Arab nationalist movement against the Ottoman empire. They gave the Arabic language a vocabulary in which to think about the modern world.

In normal times, such arguments might be raw material for academe, or, at most, some foreign-policy think-tank. But at a time when serious efforts are being made to prove that Christians and Muslims always have been and always will be at loggerheads, it is more than an intellectual game to show that Arab Christians have a place in their homelands' story.

Muslims point out that their faith is unique among the monotheistic faiths in urging its followers not only to respect but, where necessary, to protect adherents of the other two. And it happened. Muslim rulers of the past were far more tolerant of people of other faiths than were Christian ones. For example, al-Andalus's multi-cultural, multi-religious states ruled by Muslims gave way to a Christian regime that was grossly intolerant even of dissident Christians, and that offered Jews and Muslims a choice only between being forcibly converted and being expelled (or worse). This throws some light on Mr bin Laden's misuse of history: he invokes al-Andalus as an inspiration for Muslim intolerance, when it was an example of the reverse. But that does not weaken his argument that Christianity is always hostile to Islam.

The case for the West

So what counter-arguments can be found in the western world? It is an awkward fact—awkward for him— that while most of the happiest examples of Christian minorities living in Muslim-ruled countries come from the past, the best examples of Muslims living alongside a Christian majority come from the present day.

The most visible examples are in western Europe. Its countries have not been uniform in their approach to the secularisation of the state. The French state, for instance, is self-consciously anti-clerical. Britain has an established Christian church, albeit, these days, a broad and tolerant one. Germany has “state churches” to whose support Christian citizens pay taxes unless they consciously opt out. But all three have large Muslim communities, readily accepted by the state, if not always loved by the non-Muslim majority.

The best case, though, is in the United States. It has several million mostly contented and loyal Muslim citizens. Many live in such all-American parts as Illinois and Michigan. By a fluke of history, the state of Ohio boasts a particularly impressive mosque, just outside Toledo—named after the city in Spain which encapsulates the Christian-Muslim encounter at its most tragic and contradictory. (Old Toledo has by turns been a Muslim stronghold, a bastion of the Roman Catholic Inquisition, and the site of a Catholic cathedral that contains a monument to a Muslim leader who averted bloodshed by backing down in a looming religious war.)

American Muslim leaders believe their community numbers over 6m—as many as their country has of Jews. The number is in dispute, and the level of their piety varies greatly. But, whatever the figure, American Islam has been gaining in self-confidence: the recent issue of an American stamp to commemorate a Muslim holiday, and the admission of Muslim clerics to the American army, have been important symbolic landmarks.

It may be the American model of secular government, combined with constitutionally guaranteed religious freedom, which Muslims find easiest to live with. For example, Muslim women there who wish to wear headscarves to work or to school can assert their legal right to do so; not so in schools in secular France. Likewise, if American Muslims lack the space or time to pray at their work-place, they can have recourse to a law requiring employers to make “reasonable accommodation” for their workers' religious needs. The law is not invoked often—which, in that law-minded country, suggests that it does not often need to be.

James Zogby, a scholar of American ethnic politics and lobbyist for the Arab-American community (a majority of whom are Christians, as he is), thinks American society provides an almost irresistible model of civic conformity combined with religious freedom. “In the Middle West, there are Muslim community associations where the boys are all football players, and you couldn't tell their group photographs from an outing of Baptists or Methodists. But they still fast during Ramadan,” he says.

More than law is involved. Middle America has a quiet commitment to very deeply held but very private religious beliefs. It may be a more comfortable place for Muslims to live than western Europe, which is at once more sectarian (Germany, Italy and the Netherlands have parties with avowedly Christian antecedents) and more indifferent to things spiritual. And indeed Muslims who emigrate to the United States often find American society far more attractive at close quarters than is the version of it which they receive in their home countries, second-rate movies and commercial culture at its most tawdry.

A genuine debate

Why is this not recognised? If America fails to export a much better side of its culture, its model of freedom—including the freedom to be devout in whatever way you choose, so long as nobody else is hurt—that is mainly because most traditionally Muslim states, including pro-American ones, will not take the risk of opening their air-waves and their printing-presses to genuinely pluralist debate.

In practice, this has often left the way clear for the message of people who, like Mr bin Laden, see a radical incompatibility between historically Christian places and the Muslim world. They may yet win the hearts (yes, and the minds) of people disgruntled with the West and with their own rulers alike, for largely economic, not cultural, reasons. Mr bin Laden and his kind may be sloppy historians and faulty interpreters of their own faith, let alone others. But even now he could win the propaganda war, and make his predictions of a clash self-fulfilling, unless serious people in the “Christian West” and the “Muslim East” are prepared to take his arguments seriously and demonstrate that there are no such places.

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Russia and America

A touching of fingertips

Nov 15th 2001 | CRAWFORD, TEXAS
From The Economist print edition

Rock-solid allies? No. But certainly enemies no longer

Reuters

FOR Americans who have compared Vladimir Putin to Peter the Great, the symbolism of the Crawford summit was striking. Here in Texas was a Russian president who had made a decision to ally himself with the West, wearing cowboy boots and eating barbecue on a ranch. Back then, 300 years ago, the great Russian westerniser affected western dress and imposed it on his court. The comparison flatters Mr Putin; but the Crawford get-together does not destroy it. Mr Putin's desire to westernise Russian diplomacy, long evident, has taken a new step forward.

The most striking result is that both sides have agreed to make deep cuts in their arsenals of nuclear warheads over the next ten years. President Bush says that he will cut America's stockpile to between 1,700 and 2,200 warheads, from over 6,000 now. Mr Putin responded by saying that Russia would cut its arsenal by two-thirds.

These reductions are not proof of American claims that the two countries have decisively broken away from the nuclear pattern of the cold war. Mr Bush and the Pentagon have always said they would not go below about 2,000 warheads (the Russians had wanted 1,500), because that is the minimum the Pentagon thinks it needs to maintain the so-called “triad” of nuclear forces: keeping an arsenal of missiles that can be launched from submarines, bombers and land bases.

The triad is a product of cold-war military doctrine.The new figure stretches that doctrine up to, but not yet beyond, the breaking-point. If you remember those long-ago days, a figure of around 2,000 warheads apiece is roughly where things stood in the 1970s, when the two sides were nose-to-nose enemies. And it will be ten years from now, 20 years after the cold war's end, before they are back there.

For all that, the reductions are significant—partly for the glow of goodwill that surrounds them, and partly for the way in which they were decided upon. It is notable that the lower end of the range Mr Bush announced does in fact breach the 2,000-warhead barrier, and the range itself was lower than the 2,000-2,500 proposed by Bill Clinton and Boris Yeltsin in a summit in Helsinki in 1997 (though the Clinton team was privately toying with a drop to about 1,500). Rose Gottemoeller, a former official of the Clinton administration, says that this week's announcement “breaks the sound barrier” because it lays down a marker for future warhead numbers that could destroy the triad system. The bang may echo down the years.

The reductions are significant—partly for the accompanying goodwill, and partly for the manner of the decision

The other feature of this week's announcements is their curious mixture of unilateralism and co-operation. Mr Bush said he was cutting America's stockpile regardless of anything Russia did. He had campaigned on a promise to make deep nuclear-arms cuts, and the decision to go ahead was taken, he claimed, on the basis of America's security needs alone.

Still, if this was unilateralism, it was of a most unusual kind: co-operative unilateralism, you might call it. As Ms Gottemoeller points out, if it has a historical parallel, it is probably with what the Eisenhower administration did in the late 1950s. Ike launched a unilateral moratorium on nuclear testing before negotiations on a test-ban treaty. This produced a Soviet “unilateral” response and eventually (though a long time later) the Comprehensive Test-Ban Treaty.

No comparable agreement is likely soon with Mr Putin's Russia, given the Bush administration's desire for freedom of action in its defence planning. But the parallel reductions have already had the same effect; they have broken a diplomatic stalemate. They also show a mixture similar to that of the 1950s, in which negotiated agreements support unilateral moves. It seems likely, for example, that some of the verification procedures enshrined in the START-1 nuclear-arms-cutting deal will be used to show that the unilateral cuts are going ahead as promised. On the face of it, this is a better basis for American-Russian relations than either past arms negotiations or go-it-alone unilateralism.

The test of this new way of organising the two sides' dealings is already under way: blurring the Anti-Ballistic Missile (ABM) treaty so that America can test a missile defence system. In the past, the administration has said that if it could not get an agreement with Russia it would abrogate the treaty this month, so as to begin a new round of tests. It has since backed away from the threat—but not, it seems, because an agreement is imminent.

At Crawford, the two sides had hoped to reach an understanding pretending that the ABM treaty does not limit the tests America wants to perform. This would be combined with the announcement of a new American test site, probably in Alaska, which would not be permitted under the treaty. As *The Economist* went to press, it was not clear that an agreement would be reached, partly, it seems, because the Russians wanted more intrusive inspections of the tests than America would accept. The proposed deal was also opposed by conservatives in Congress.

Still, an abrogation has at least for the moment been averted, and the two sides still seem willing to try to inch closer together. If a deal can eventually be reached, the administration will get its anti-missile tests, and the Russians will keep a ghost of an ABM treaty. Such a compromise seemed impossible a few months ago.

Of course, Mr Putin's decision to move closer to the West after September 11th is intended to bring Russia something in return. The missile cuts are one part of that (though whether they are enough to placate his military critics at home remains to be seen). And he will get help on the economic front, too. At the Bush-Putin meeting, the administration called for Russia's membership of the World Trade Organisation once it has signed a protocol outlining the reforms needed to get its economy ready, which may take years. The administration also promised to help get rid of smaller irritants such as the Jackson-Vanik amendment of the 1970s, a cold-war relic that denies Russia most-favoured-nation trading status because of Soviet restrictions on Jewish emigration.

Yet many in the Bush administration remain wary. They fear that, in joining western clubs, Russia is hoping not only to get the benefits of membership but also to influence the clubs in ways the West may not like. NATO is an example. The administration has promised to increase contacts between the alliance and Russia, as a way of offsetting Russian objections to a second round of NATO expansion which is likely to embrace one or more Baltic states. But Mr Putin says he wants NATO then to become a looser, political organisation. Few current members, including America, are likely to agree to that.

The Crawford summit was a complicated business. But it seems to open the door to a new relationship between Russia and America which, with luck and skill, can lead the two countries into a very different future. Russia seems a powerful and reliable member of the new alliance against terrorism. Since September 11th, its ties with the West have manifestly grown stronger. But if Mr Putin's Russia is now ready to be a better colleague of the West, it has not yet shown itself to be a fully-fledged part of it.

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Nuclear-weapons testing

Dancing round a ban

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America is still reluctant

THE terrorist attacks of September 11th have done less than some had hoped to change George Bush's unilateralist instincts. This week America refused to attend a meeting in New York on the Comprehensive Test-Ban Treaty (CTBT), which it has signed but not ratified. Mr Bush has all along insisted he will not put the treaty before the Senate, which rejected it in a partisan vote two years ago, because, he says, it is unverifiable, unsafe and cannot stop the proliferation of nuclear weapons. Yet there is still debate about this inside his administration, and America has continued to observe the ban, urging other governments to do so too. Will it now abandon the treaty altogether?

Not yet, it seems, if only because of the international outcry this would provoke at a time when Mr Bush is trying to persuade Russia and others to accept his missile-defence plans. But deepening official hostility to the treaty was evident earlier this year, when America decided it would no longer help to pay for preparations for on-site inspections as the treaty allows. America will, however, continue to help finance the building of an international monitoring system to deter cheating, since the treaty's monitoring network is far more extensive, sensitive and cost-effective than anything America could set up on its own.

Nor is the treaty as useless as Mr Bush suggests in blocking proliferation. It cannot stop a determined cheat producing a crude fission bomb, since the technology is well-known. But as a report by General John Shalikashvili, a former chairman of the joint chiefs of staff, concluded earlier this year, it would help to prevent other unwelcome developments, such as a race to produce more powerful bombs between India and Pakistan, or the development by China of smaller warheads better suited to multiple-warhead missiles.

Mr Bush's other worry—that a test ban will stop America ensuring the safety and reliability of its remaining nuclear weapons—is disputed among scientists. Modern computer techniques can do most of the work that nuclear blasts once did, except validate entirely new warhead designs. One lobby is pressing for the development of smaller-yield, earth-penetrating warheads to get at hardened underground targets—Osama bin Laden's presumed hideaway, for example. Although some scientists argue that such warheads could be built using existing designs, critics point out that abandoning the test ban to develop mini-nukes would encourage others to do likewise. If they did so, they could all the more easily counter the conventional military superiority that America has long enjoyed—and has been putting to good effect in Afghanistan.

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The Queens plane crash

More misery, more fear

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From The Economist print edition

This week's plane crash has made New Yorkers sad and jumpy again

Get article background

A deliberate act or unbearable coincidence?

IF THE crash of American Airlines flight 587 on November 12th was an accident, the place and timing could hardly have been more cruel. Statistical probability means that, even though flying is the safest form of travel, an aircraft will fall from the sky every once in a while. But for that aircraft to be happening to leave from a New York airport, and for it to plunge into a residential neighbourhood—one that was already mourning the loss of many residents in the World Trade Centre—seemed an unbearable coincidence. Little wonder that some religiously-inclined New Yorkers are asking if God is punishing the city, or if He is even there at all.

The crash came on Veterans Day, the day after the two-month anniversary of the destruction of the twin towers. Many New Yorkers had seen this as a fitting moment to complete the resumption of life as normal. Now they are worrying again. Since troubles come in threes, is another tragedy imminent? The mood was caught well by Raymond Kelly, the next chief of police: “Having lived through the unthinkable, we have to be prepared to live through the unthinkable again.”

Nobody is entirely convinced by the official explanation. A strange first wave of euphoria, when this seemed to be “just a crash”, quickly faded. After responding at first as if the crash were a terrorist attack, shutting down the three New-York-area airports and the tunnels and bridges to Manhattan, officials quickly turned reassuring. But they were still unsure why the crash had happened. An early attempt to pin the blame on engine failure was seemingly disproved, and a tail-fin, fished out of the sea, seemed to indicate that the aircraft may have broken up as it took off. Spontaneously falling apart is a highly unusual way for a plane to crash.

Independent experts seem to agree, however, that the crash was probably an accident. The FBI does not appear to have taken charge of the investigation, suggesting that there is no obvious evidence of terrorism. The plane, an Airbus A300, was ageing, though the model has an impressive safety record. There was some turbulence at low levels in the area. Conceivably, problems were caused by the wake of a plane taking off a couple of minutes earlier, but this is not supposed to be a danger when both aircraft are of a similar size.

New Yorkers' suspicions have not been allayed by the remarkable failure of the airline industry to improve security since September 11th. Congressmen continue to argue about what measures should be included in a new Aviation and Security Act. Meanwhile, improved security, according to Juval Aviv, the president of Interfor, a security and investigation firm, is little more than “the same people asking the same questions, but now asking much slower: ‘Do you have a bomb? Do you have anything that looks like a bomb?' It's a joke.”

Mr Aviv used to work for El-Al, the world's most security-conscious airline. Every El-Al flight carries an armed security guard, with military training, who sits in the terminal for two or three hours before a flight to watch the passengers. As well as the screeners, almost all of them with college degrees, who monitor metal detectors and X-ray machines, security staff trained in behavioural analysis question every passenger, listening for suspicious answers. Every item of luggage is examined, by X-ray or by hand.

Since September 11th, some (but not all) airlines have put locks on cockpit doors to protect pilots. More armed “federal air marshals” have been put on domestic flights by the Federal Aviation Administration (FAA), though it will not say how many more. Certainly, not all flights are protected by a marshal.

The FAA has ordered all bags on domestic flights to be screened—as they already were on most international flights leaving America—but this remains a task for individual airlines, and some are not doing all they could. It is probably hard for a bomb in a bag to get on to a plane unless accompanied by a passenger, but security experts fear a suicide bomber might succeed. Even the attacks on September 11th might be repeated, despite bans on taking aboard potential weapons such as knives, razors and, for some reason, even perfume. A Nepalese man carrying knives, a stun gun and pepper spray got as far as the gate at Chicago's O'Hare airport, and your correspondent recently carried razor blades into the cabin on a flight from Las Vegas to New York.

America's screeners are poorly paid, barely trained and work for private companies which are contracted to the airlines. Background checks are being improved from the previous cursory levels, but only slowly. Opinion polls indicate that most Americans want the federal government to take over and operate aviation security. They are worried about caterers and cleaners too, and with some reason. Just last week, it was discovered that 80% of the cleaners at one airport were illegal immigrants and two were former convicts.

Meanwhile, squeamishness about “racial profiling” means that a white grandmother is as likely to be frisked at an airport as a twentysomething Arab man. So, even if the crash of flight 587 does turn out to have been an accident, the authorities have done scandalously little to ensure that the same will be true next time.

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Assisted suicide

Ashcroft's sneak attack

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From The Economist print edition

Oregon's law comes under fire again

Get article background

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He wants to die, if Ashcroft will let him

SINCE 1997, Oregon residents have had an unusual right: the right to take their own lives. Not many have done so. In the years since the law allowing doctors to give lethal doses of barbiturates to the terminally ill has been in effect, only about 70 patients have exercised that option. But for many in Oregon, the fact that that right exists has offered comfort.

To others, it is wrong both in principle and in practice. It offends no group more than the right-to-life movement in the United States. And on November 6th opponents of the Oregon law got what they had long sought. John Ashcroft, the US attorney-general, issued a new rule forbidding doctors to use federally controlled drugs to end a life. The drug of choice for patients seeking suicide, a fast-acting barbiturate called Secobarbital, falls under federal regulation and so is off-limits.

In taking this step, Mr Ashcroft overruled a 1998 ruling by Janet Reno, his predecessor in the Clinton administration, that federal drug laws were not intended to restrict doctors in their prescribing. That ended, for a while, the battle in Congress to overturn the Oregon law. But George Bush had always opposed it, and behind-the-scenes work to undo it had apparently been under way since last spring.

Given the enormous distractions of the war on terrorism, the timing of Mr Ashcroft's announcement struck some as odd. “To introduce this divisive issue at this point is, to me, unthinkable,” said John Kitzhaber, Oregon's Democratic governor and himself a doctor who has supported the assisted-suicide law. If the aim was to slip the decision through while attention was drawn abroad, it failed, for the ruling got wide attention. So did the Bush administration's apparent willingness to overturn state's rights—long a Republican article of faith—in order to mollify its right flank, especially those who are still seething over Mr Bush's decision in August to allow limited stem-cell research.

Mr Ashcroft has not had the last word. Two days after his announcement, state officials filed a lawsuit claiming that he had misread federal drug regulations and violated the state's right to manage health care. A federal judge in Portland agreed, giving Oregon ten more days to keep its assisted-suicide policy while lawyers for both sides prepared for a hearing on November 20th. A long battle, possibly ending in the Supreme Court, is expected.

The arguments that will be heard in the coming weeks and months are familiar. Proponents of assisted suicide will contend that Mr Ashcroft's move takes away a precious option among those who are terminally ill, and will lead to invasions of privacy as federal drug officials pore over patient records to determine if the law was broken. At issue, too, is whether enforcement of Mr Ashcroft's ruling will lead doctors to prescribe pain-killing drugs more cautiously. Opponents of the law see this as a criminal matter—doctors who prescribe lethal drugs are assisting a murder—and a moral one. Moreover, Mr Ashcroft argues, the federal government already has the right to outlaw marijuana in states that allow it for medical purposes. Why should it not also regulate drugs administered for suicide?

Assisted suicide is not an issue that offers easy answers. But Mr Ashcroft's case would be stronger if the Oregon law had led to a suicide epidemic. It has not. No other state has opted to follow suit, and no cases have been reported in Oregon in which a patient has been given a lethal dose of drugs for any

reason other than a terminal illness. Oregon voters have thought hard about this issue, and twice voted their support. In this most personal of decisions, the federal government needs to argue more convincingly that it has Oregonians' best interests at heart.

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Detentions

First find your suspect...

Nov 15th 2001 | SAN FRANCISCO
From The Economist print edition

A wider net and new military tribunals

Get article background

THIS week, America's investigation into the terrorist attacks of September 11th widened abruptly. Already, more than 1,000 people have been detained, most on immigration charges. Now the Justice Department has asked law-enforcement officers across the country to pick up and question 5,000 men, most of them of Middle-Eastern origin, who have entered the country on tourist, student or business visas in the past two years.

They are in America legally, but the Justice Department believes they may be able to help as witnesses. If not, it wishes at least to eliminate them from its inquiries. The department did not list all the countries from which they come, but confirmed that they are mostly those where al-Qaeda is strong. All the men are between 18 and 33 years old. The interviews are voluntary, and the men will not be arrested.

Even so, the American Civil Liberties Union has expressed alarm at what it describes as a “dragnet approach” based on racial and ethnic characteristics. Such worries have been stirred by the scale of detention since the investigation began. Nine men in an “inner core”, who are believed to have strong, direct links to the attacks of September 11th, are being held. A further 18 detainees, including one woman, have close links to the attackers or those in the inner core, perhaps as room-mates, or because they helped them to obtain false identification papers.

The bulk of the detainees, however, are thought to have been arrested because of where they come from and circumstantial associations with the attacks. They may have taken flying lessons at schools where the attackers were taught, for example, or have applied for driving licences at around the same time and place. Most are being held for having overstayed their visas, an offence that would previously have gone unnoticed or would have been investigated while the offender was free on bond.

Lawyers for some of the detainees have asserted mistreatment (there has been one death in custody, although it seems to have been from natural causes). But the greater legal worry is over the grounds for keeping them in detention. An affidavit from the FBI, saying it is “unable to rule out” the possibility of links to the attacks, has been widely applied to keep people in custody. Some lawyers claim that this inverts the normal requirements of the law, demanding that the defendants prove a negative to secure release.

Civil libertarians were further exercised on November 13th by an announcement that President George Bush had signed an order allowing special military tribunals to try foreigners charged with terrorism. The tribunals may operate in Pakistan and Afghanistan, and would not necessarily be public. If established, they would give Mr Bush another option for dealing with Mr bin Laden and his associates, should they be caught.

Tribunals would eliminate the worry, in a civil trial in America, that jurors would be in danger of attack by other terrorists. They would also allow the government to keep secret the intelligence methods by which evidence had been gathered. Standards of evidence would be looser than in civil courts, or even courts martial, and guilt would not need to be proved beyond a reasonable doubt.

The White House cites precedents in the tribunals used to try Abraham Lincoln's assassin and his accomplices in 1865, and German saboteurs in the second world war. Both of these were accepted by the Supreme Court. For now, however, there is still no one to put on trial, whether civil or military, and the search for evidence and suspects goes on, with an ever-widening net.

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Al Gore discovers himself

Nov 15th 2001
From The Economist print edition

What would it have been like if Al Gore had won last year's election?

THIS has been a truly remarkable week for President Al Gore. The Taliban is in full retreat in Afghanistan. Vladimir Putin has agreed to scrap more than two-thirds of Russia's nuclear weapons, fulfilling a dream that Mr Gore has cherished since he first went into politics. And Congress stands poised to pass a giant stimulus package. No wonder the president's approval rate stands at a stratospheric 87%.

It seems almost churlish at such a time to bring up the little matter of the 2000 vote. But after last November's disputed election a consortium of conservative newspapers, led by the *Washington Times*, decided to pay for a recount of all the Florida votes. A million dollars of Richard Mellon Scaife's money and thousands of man-hours later, these Republican geniuses have proved what we all knew already: that the election was damn close. If Mr Gore had followed the advice of some of his more cynical advisers and concentrated on counting the votes in just four Democrat-controlled counties, rather than doing the honest thing and calling for a recount of all the votes in the state, he would have lost to George Bush.

Can you imagine it? Mr Bush has gone into semi-retirement in Austin, his limited abilities as Texas's governor taxed by a legislature that meets only every other year. But the mere thought that he might have been president sends shivers down the spine. This is a man whose idea of foreign travel was to visit a *barrio* or two when he wished to appear "compassionate", and who would have conducted foreign policy from behind a Maginot Line of missiles. There is every reason to believe that, after September 11th, a President Bush would have struck out blindly at Osama bin Laden, perhaps even using nuclear weapons.

After September 11th, Al Gore at last realised what God put him on earth to achieve

Which all goes to show how sensible the American people were to choose a man with real experience. Mr Gore has brought a remarkable set of skills to the present crisis, honed by a lifetime in politics and eight years in the vice-presidency. His "golden Rolodex", as one commentator has called it, has been invaluable to his building of a grand alliance against terror. He used his close personal relationship with Mr Putin to bring a reluctant Russia into the war, fundamentally changing the whole pattern of geopolitics. He used his ideological ties to Tony Blair, forged at many a seminar on the Third Way, to turn Britain into a bedrock of support. It is fair to say that Mr Gore has not one secretary of state but two: the indomitable Richard Holbrooke and the ever-loyal British prime minister.

The mention of Mr Holbrooke points to another extraordinary fact about the Gore presidency: the quality of the people he can call on. It is no exaggeration to say that Mr Gore has the entire brainpower of the country, from Washington think-tanks to the Ivy League universities, at his disposal. And there are few brains as acute as the secretary of state's.

Mr Holbrooke is one of the most experienced diplomats in the business. Mr Gore credits him with getting Germany wholeheartedly to join the anti-terrorist campaign, thanks to his time as ambassador there. But in some ways Mr Holbrooke still has to come into his own. The very qualities that make the secretary of state so unpopular in polite circles—his abrasive self-importance, his absolute confidence that he is right on matters big and small—make him a giant when it comes to negotiating with primitive warlords. He knocked heads together with extraordinary success in Bosnia; he will do the same thing in Afghanistan.

Fiddle, fiddle, fiddle

Mr Gore's extraordinary knowledge of Washington has been more of a mixed blessing in two other areas. The first is military strategy. The president has been a military buff ever since he became a congressman back in 1977. But his encyclopedic knowledge of warfare—and his iron belief in his own abilities—have inevitably led to clashes with the Pentagon. The generals grumble that Mr Gore wanted to control where every bomb was dropped, and that the result was a much more hesitant start than necessary to the war.

On the home front, Mr Gore was furious at the way the anthrax outbreak threw his administration into confusion. He could not understand why the Centres for Disease Control did not know more about the illness. He was apoplectic when he discovered that the FBI did not even know which laboratories in the country were licensed to produce the stuff. Yet his decision to put himself in charge of a special task-force has failed to produce results. Even more unsatisfactory has been his handling of the question of airport security. His remarks that those Republicans who oppose federalising security workers are “Neanderthals with the blood of the American people on their hands” is hardly likely to produce compromise.

Mr Gore's habit of micromanaging events is clearly his biggest weakness: a weakness that has been made worse by the decision to put Vice-President Joseph Lieberman (who had aroused much wrath on the Arab street because of his Jewish background) into a permanent secret location. But all this pales into insignificance beside Mr Gore's secret weapon during these dark days: his discovery of his true self.

The strongest criticism of Mr Gore has always been that he does not know who he is. Throughout his career, he reinvented himself to suit the mood of the times. In his first run for the presidency, he presented himself as a champion of the business-minded New Democrats; in his second run, he campaigned for the people against the powerful. All this left the impression that he had no hard centre, but was simply playing at politics in order to appease his father's ghost.

All this changed on September 11th. The collapse of the twin towers gave this extraordinarily restless and energetic man the task he has been seeking all his life: the war against terrorism. Al Gore at last knows what God put him on earth to achieve.

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An election correction

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From The Economist print edition

In the issues of December 16th 2000 to November 10th 2001, we may have given the impression that George Bush had been legally and duly elected president of the United States. We now understand that this may have been incorrect, and that the election result is still too close to call. *The Economist* apologises for any inconvenience.

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Politics in Mexico

Searching for a livelier role

Nov 15th 2001 | MEXICO CITY
From The Economist print edition

Mexico's political parties owe their identities to past conflicts. They are struggling to adapt to a new and freer political order

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Corbis

LIFE used to be dull but straightforward for Mexico's three main political parties. The Institutional Revolutionary Party (PRI) was created in 1929 as the official party of the state and the nation. Its jobs were to unite hundreds of bickering factions from the country's 1910-20 revolution, to be the electoral arm of the government, and to buy popular support through patronage. To the right, the National Action Party (PAN) protested, in the name of Christian democracy, at many of the changes wrought after the revolution, such as those of President Lazaro Cardenas (pictured above), who nationalised oil and distributed land to peasants in the 1930s. On the left, the Party of the Democratic Revolution (PRD) was formed by Cardenas's son, Cuauhtemoc, to defend his father's ideas, after the PRI's leaders began to adopt many of those of the PAN.

All this changed last December, when Vicente Fox of the PAN took office as president. But after 71 years of rule by the PRI (earlier called the PRM), Mexico's political parties are finding it hard to adapt to new roles in an emerging democracy. That is especially so for the PRI, which this weekend holds its first national gathering since its defeat. Having lost power and the presidency, it has lost its main reason for existence. Now the PRI has to work out what else makes it the PRI. Supposedly, the 12,000-delegate convention will do that. The party wants to remain in the middle ground, between the PAN and the PRD. Not surprisingly, the party leaders' favourite phrase is “the third way”. But that conceals a big divide, between those who favour free-market policies and those who blame precisely such policies for the party's defeat.

The convention's most important job is to set the rules for a party leadership contest early next year. Since the presidential election, a caretaker leadership has concentrated on keeping the various factions from breaking away. It has been remarkably successful. Not only have predictions of an early split been confounded, but the party has also done reasonably well in the local elections held over the past year. It has lost some governorships and mayors, but maintained an average of over 40% of the votes—more than in the presidential race. Not until there is a new face at the helm can the party set a course for recapturing the presidency. But a leadership contest will also polarise the party, between the old guard and the modernisers. It is then that the losers may split off.

Like the PRI, the PRD was soldered together from many bits—social organisations, small leftist parties and PRI defectors. Mr Cardenas came within an ace of winning the 1988 presidential election (fraud is believed to have foiled him). But having been Mexico's main opposition in the early 1990s, the PRD lost that role, first to the PAN and now to the PRI, and has degenerated into squabbling factions.

This week, however, the PRD had something to celebrate. On November 11th, Cuauhtemoc Cardenas's son, Lazaro, won the governorship of Michoacan state, a PRI bastion. But, says Kathleen Bruhn, a political scientist at the University of California in Santa Barbara, the win owed less to the party than to the candidate. Mr Cardenas worked hard to unite warring PRD groups in the state. And it helped that his father and grandfather had both held Michoacan's governorship for the PRI. The PRD, too, will choose a new leader early next year. Mr Cardenas's success threatens only to widen the gap between people loyal to his father and their opponents.

What may determine the outcome of these faction fights is an underlying change in Mexican politics. Increasingly, voters will judge the opposition parties not so much by the pronouncements of their leadership contenders as by the way their elected officials behave at all levels of government. For the PRD, this means its handful of governors, chief among them Andres Manuel Lopez Obrador, Mexico city's mayor, who is Mr Cardenas's chief rival in the party. In Congress the party has too few seats—around a ninth of each house—to make much impact.

For the PRI, however, the legislature is all-important. It is the largest party in both houses of Congress. Shrewdly, it has co-operated with the government on many bills, blocking only things that matter, such as a tax reform that includes an unpopular proposal to levy VAT on food and medicines. Mr Fox could have tried to split the PRI by negotiating only with certain parts of it, says Ignacio Marvan, a political scientist at CIDE, a Mexico city university. But he has chosen not to, “and that means the PRI has managed to set the agenda despite its own slow decision-making process”. The word in Congress now is that the tax reform will pass this year, but at a heavy price exacted by the PRI.

To confuse matters further, Mr Fox's shaky relations with his own party are also partly to blame for his difficulties. Mr Fox won the presidency on the strength of his own personal campaign, with little PAN support. The distrust persists: he did not show the tax reform, his biggest bill so far, to the PAN before sending it to Congress. Communication between them remains patchy and tense. As in the PRI and the PRD, some members of the PAN today wonder what their party is really for.

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Argentina's economy

At last, a deal

Nov 15th 2001 | BUENOS AIRES
From The Economist print edition

But delay and dithering carry a price

AP

Something fishy in the money supply

Get article background

IF HIS last-ditch effort to avoid a unilateral debt default by Argentina's government were to succeed, at a minimum President Fernando de la Rua needed a deal with the Peronist opposition. It runs 14 of Argentina's 23 provinces, including the three biggest, and will be the largest party in both houses of the new Congress that takes office next month. After a month of wrangling and procrastination, finally, on November 14th, the governors of the three main provinces agreed to accept revenue cuts. But has the deal come too late?

The provinces (all but five have now signed) have agreed to a 13% cut in revenue transfers from the centre. In return, the government will renegotiate their debts to local banks, saving them $1 billion a year. Reform of provincial finance was a condition of Argentina's latest loan from the IMF. It is essential if the government is to persuade local banks and pension funds to accept its proposal that they should swap their bonds for new debt paying less interest but guaranteed against tax revenues. Domingo Cavallo, the economy minister, says this swap will be completed by the end of this month. He then hopes for a similar swap with foreign creditors.

The lack of a deal with the Peronists marred Mr de la Rua's trip to the United States and meeting with George Bush last weekend. Any debt swap with foreign creditors would require guarantees from outsiders, such as the IMF or the United States Treasury. But Mr de la Rua received only polite praise from American officials. Firmer support depends on reform of provincial finance, they said.

Since that is now almost achieved, some analysts believe that the debt-swap plan may now get wider backing, in Washington and among creditors. But others believe the delay has come too late to salvage Argentina's credibility.

Meanwhile, the government has got itself into other muddles. On November 13th, Patricia Bullrich, one of the main architects of the latest economic plan, resigned as social welfare minister, only a fortnight after being given the job. She had not been given sole control of the welfare budget, and complained that the money would be used for “political patronage”. Mr de la Rua failed to back her.

Some analysts are also unimpressed that, in an attempt to spark economic growth, Mr Cavallo's latest plan gives away in tax breaks for business more than will be saved from cuts by the provinces. That is a belated recognition that Argentina will never achieve fiscal equilibrium while tax revenues continue to shrink. But just as Mr Cavallo confused matters by fiddling with Argentina's dollar peg (half linking it to the euro for foreign trade purposes), so he has now quietly abandoned the goal of a balanced budget, the cornerstone of his policy since July.

And in monetary policy, too. Under Argentina's currency board, the money supply is meant to be limited to the stock of reserves. But the government has let Buenos Aires province pay wages in bonds called Patacones; Mr Cavallo intends to pay the government's arrears to the provinces (totalling $850m) with similar funny money. “Argentina used to have monetary, trade, exchange-rate and fiscal policies that everyone could understand,” says Arturo Porzecanski, an emerging-market specialist at ABN-Amro, a Dutch bank. “Now they are shot full of loopholes.”

The government still clings to the hope that enough of its creditors will fall in with the debt swap to allow interest rates to fall and the economy to recover. But the more Mr Cavallo fiddles and Mr de la Rua dithers, the less likely that looks. Neither is it certain that Mr de la Rua will finish his term. Some Peronists want their party to take the presidency of both houses of Congress when it convenes next month. That would mean that they could, in theory, try to unseat Mr de la Rua. But the Peronists are divided, and the deal with the provinces may calm tensions. The president is likely to survive—at least for now.

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Football in Brazil

Red cards for the bosses

Nov 15th 2001 | SAO PAULO
From The Economist print edition

Pressure to reform the football industry may be unstoppable

EPA

More agony than ecstasy

NOT long ago, the outcome of a football match between Brazil and Venezuela, the four-times world champions versus what was long South America's weakest side, would have been a foregone conclusion. Such is the decline of Brazil's once-invincible yellow shirts that there was a huge sigh of relief at the victory on November 14th that allowed the home team to scrape into the World Cup finals.

But this last-moment victory may not be enough to silence calls for reform. Poor performances on the pitch have gone hand in hand with chaotic mismanagement and corruption off it. Last year, after Brazil performed dismally in the early World Cup qualifiers and in the Olympics, each house of Congress set up committees of inquiry. These heard evidence of bribery, money-laundering and tax-dodging. But several congressmen on the committees have links to football clubs and the Brazilian Football Confederation. In June, the lower house's inquiry ended in farce, with the football lobby blocking a final report. The Senate's inquiry, now drawing to a close, shows signs of going the same way.

Geraldo Althoff, the senator compiling the report, says he has “absolute certainty” that the report will be approved when he presents it next month. He promises that it will contain damning indictments of the confederation, its controversial president, Ricardo Teixeira, and other football bodies. But will it?

One of the fiercest critics of the football bosses, Juca Kfouri, a leading sports journalist, thinks it may just pass without being watered down. Either way, says Mr Kfouri, the momentum for a clean-up may have become hard to stop. The lower house's inquiry triggered investigations by police and prosecutors. Corruption in sport has become a hot topic in Brazil's media. Mr Teixeira, who is currently on sick leave, and other soccer chiefs have had to endure exposés questioning how they got so rich. They reject all accusations of wrongdoing, and are fighting back: Mr Kfouri says he is facing 30 lawsuits from them. But such is the anger, football bosses now hesitate to be seen in public, he says. Even top clubs, such as Corinthians and Flamengo, face dwindling crowds.

Fans now link poor performance on the pitch with dodgy dealings in the boardroom. Club bosses grab talented youngsters off the streets, then lobby for them to get picked for the national side—Congress heard evidence of bribes being paid for this—so they can quickly sell these “internationals” to foreign clubs. The bosses, keen to rake in sponsorship and television money, commit their teams to playing absurd numbers of matches.

Most of Brazil's best footballers now play in Europe. That restricts their opportunities to train with the national side. This, plus constant changes of team selection, mean that, while other national sides have improved their game through sophisticated coaching, the self-declared “country of football” has been relying on raw, unschooled talent. It is no longer enough.

As sports minister in 1995-98, Pele, Brazil's greatest footballer, proposed a law to subject football clubs to company law, which would have forced them to publish proper accounts. It would also have abolished their right to buy and sell players “like slaves”, as Pele put it. The football lobby made sure his law was emasculated.

Mr Althoff says his report will propose a fresh law, which will create a new regulatory body. He adds that

he will ask President Fernando Henrique Cardoso to introduce it by decree, daring Congress to vote it down. The rising anger against the shambles in Brazilian football means that such a stratagem might work.

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The Great Lakes

New threats, new hopes

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From The Economist print edition

Environmental management faces moving targets

MANY of the world's big lakes are threatened by pollution or huge drainage schemes. But there is at least one (fairly) bright spot. The Great Lakes and the St Lawrence river system between Canada and the United States, which together account for a fifth of the world's non-polar fresh water, are much healthier than they were. Can they stay that way?

Though Lake Michigan is wholly within the United States, all five lakes are governed by the Boundary Waters Treaty of 1909, implemented by an independent binational joint commission. In 1978, both countries agreed to try to clean up the water in the lakes, several of which were heavily polluted. They have done so—though in fact the improvement owes as much to economic change as to government action. Steel and other heavy industry have given way to cleaner industries and services, both in Ontario and in American lakeside states. The result: tests on fish and birds show residues of heavy metals have declined (though dangerous levels of mercury are still found), while in the past ten years the rivers near Toronto have been successfully stocked with salmon.

There are still worries. One problem is farming. This uses much lake water (29% of the total that is withdrawn) for irrigation, while also polluting the lakes and river systems. The huge quantities of manure spread on farms in Ontario and Quebec also causes pollution, by running off the land into streams, rivers and then lakes. Neither local, provincial nor national governments have programmes to tackle this. Then there is a plan to route a natural-gas pipeline in a 150km (93-mile) trench across Lake Erie. Critics say this might disturb the toxic sediment lying on the lake bottom, while ice scouring might rupture the pipe.

Some scientists also worry that water levels will fall permanently. Climate change is likely to cut rainfall in the Great Lakes basin, while ever more water will be drawn from the lakes by a rising urban population. General consumption in the basin will increase by 25% in the next 25 years, according to a forecast by a consultant to the commission.

Other threats include some 140 exotic species of flora, fish and shellfish that have found their way into the lakes, some via ships' ballast. The zebra mussel from Eastern Europe is the most notorious and probably most damaging to the environment. It consumes a lot of oxygen (though it also helps to clean the water). Lastly, there is the hazardous prospect of decommissioning Ontario's two dozen ageing nuclear reactors, which line the shores of Lake Ontario and Lake Huron.

Fortunately, the long history of successful co-operation between the two countries and among local governments suggests these threats can be managed. The commission has long run the St Lawrence hydro-power project at Cornwall, Ontario, and regulated the river flow without dispute or political

interference. In June, the governors of eight American states and the premiers of Ontario and Quebec signed an accord setting out principles for controlling bulk-water exports. They are due to work out binding rules on these within three years. Canada's Parliament is close to approving a government bill to protect boundary waters against bulk removals.

Both governments have approved the commission's plan to set up international watershed boards across the continent. These are to take a “holistic” approach to ecosystems. Maybe the Zebra mussel and the farm run-offs have met their match.

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Australia's election

Three more years

Nov 15th 2001 | SYDNEY
From The Economist print edition

Reuters

John Howard wins a remarkable third term as prime minister

Get article background

A FEW months ago, it was considered an “unlosable” election for Australia's opposition Labor Party. After five-and-a-half years in power, the conservative Liberal-National coalition, led by John Howard, had run out of reformist zeal, was trailing in the polls and had managed to alienate many of its supporters. But when Australians voted on November 10th, they returned the coalition with a slightly increased majority, making Mr Howard one of only six Australian prime ministers to achieve a third consecutive three-year term. After most of the second votes had been distributed under Australia's preferential system, his government had improved its share of the vote by some 1.4% to increase its overall majority from ten to 12 or possibly even 14 in the 150-seat House of Representatives.

Having now lost three elections in a row, the Labor Party faces the formidable job of reinventing itself. But, with Australia facing uncertain economic times, it is Mr Howard who may have the harder task ahead. He had dictated the terms of the election by engineering a fear campaign over mainly Afghan and Iraqi boat people heading towards Australia from Indonesia, and declaring that none would be allowed to land in Australia for processing. As an election tactic designed to extricate his government from its unpopularity earlier this year, Mr Howard's campaign over “border security”, conducted in a climate of anxiety over the war against terrorism, worked. The anti-immigrant One Nation party of Pauline Hanson saw its vote halved, and its leader has accused Mr Howard of stealing her agenda. His campaign has not, however, deterred more refugee boats from arriving.

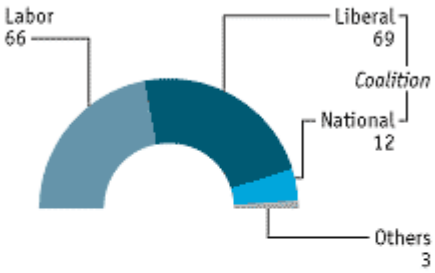
Meanwhile, the policy has caused strains in Australia's relations with its Asian and Pacific neighbours, especially Indonesia. Since his victory, sections of the Asian press have accused Mr Howard of exploiting xenophobic fears at the expense of his country's standing in the region. His approach has also drawn criticism from business people at home, who say Australia should be seeking more, not fewer, immigrants. A few days before the election, the Australian Chamber of Commerce and Industry called for the annual immigrant intake to be set at 0.67% of the population, which would raise it from the present 80,000 a year to almost 130,000, and for the refugee intake to be almost doubled to 20,000. Australia's economic future, the chamber argued, was linked to closer integration with the world trading system, and it

believes that engagement, “not isolation and xenophobia, [is] the way ahead for a confident nation”.

The comments were well-timed because Mr Howard, in promoting his war against boat people, essentially fought the election with no third-term agenda for economic management. Up to this year, his government's record had been good. Low inflation, strong productivity growth and a low Australian dollar have all helped exports boom. Mr Howard's overdue reforms to the tax system, and legislation to further weaken union power, have also given a boost. His government chalked up a series of strong surpluses. But earlier this year his credentials came under question. A series of big corporate collapses has helped to push unemployment above 7%, and it could go higher now that the world economic outlook is much grimmer. The collapse of Ansett, Australia's second-oldest airline, and a mainstay of the transport system, has delivered a virtual monopoly to Qantas, the other big carrier, although Ansett may yet be resurrected in some form.

The third term

Election results*:
Seats, House of Representatives



Party	Vote, %†	Change†
Labor	38.2	-2.0
Liberal	37.4	3.1
National	5.4	0.1
Australian Democrats	5.3	0.2
Greens	4.7	2.1
One Nation	4.3	-4.1
Others	4.7	0.5

*As of November 13th †First preference
†% point change from 1998

Source: Australian Broadcasting Corporation

Then, when Mr Howard was confronted with falling opinion polls, he set out to spend his way back to political favour. His spending promises, coupled with the war on refugees and on terror, could wipe out next year's projected budget surplus of A$1 billion ($520m), according to some estimates. This would leave little room for further income-tax cuts, which Mr Howard hoped to offer, or spending measures to stimulate growth, unless he was prepared to abandon his mantra and budget for a deficit. Australia's growth is forecast at 3% next year, but the prospect of a serious downturn among its main trading partners in Asia, America and Europe could make that hard to achieve.

While Mr Howard ponders the new economic landscape, his opponents have started pondering their own futures. The Labor Party, under first Bob Hawke and then Paul Keating, almost 20 years ago started the structural reforms that have made Australia's economy more resilient than many of its competitors'. Under Kim Beazley, their successor, Labor seemed to run out of new ideas. Many supporters were outraged by Labor's failure to oppose Mr Howard's asylum-seeker war and defected to the Greens, which doubled their vote at the election. Labor has signalled that it will change leaders again, to Simon Crean, aged 52, an economist, lawyer and former union leader, and install Jenny Macklin, a shrewd relative newcomer, as its first woman deputy leader.

Some party officials believe Labor will also have to broaden its membership, shed the remaining union control over its affairs and sell its policies harder if it is to break the coalition's hold on power. Before the election, Mr Howard, who is 62, had suggested that, if he won, he might retire half-way into his next three-year term. It is a fair bet that he won't, and that Labor will have him to contend with for a while yet.

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Myanmar

Military manoeuvres

Nov 15th 2001 | BANGKOK
From The Economist print edition

Hint of a role for Aung San Suu Kyi

Reuters

What's happening below the surface?

IN ONE of Myanmar's rare government reshuffles, it was announced on November 10th that the fourth-ranking member of the military junta had been sacked, along with a senior minister. The next day five more ministers followed. A further movement of top brass is under way. In a recent conversation with Junichiro Koizumi, Japan's prime minister, Than Shwe, Myanmar's most senior general, had raised the possibility of a role for Aung San Suu Kyi, leader of the country's democracy movement. Is Myanmar on the brink of something momentous?

Probably not. At the time of the last big reshuffle, in 1997, the junta changed its name from the sinister-sounding State Law and Order Restoration Council to the less-intimidating State Peace and Development Council, and reiterated its determination to restore democracy. Nothing changed. Another frisson ran through the country last year, when the junta and Miss Suu Kyi revealed that they had begun secret talks.

Some exiles in Thailand hope that the new shake-up is designed to smooth the way for some sort of deal with Miss Suu Kyi's party, the National League for Democracy (NLD). The regime, optimists point out, has allowed the NLD to reopen a few offices in Yangon, the capital, and has freed some 200 political prisoners. But many more remain behind bars. A Yangon-based diplomat cautions that the junta has made no concessions it cannot easily reverse.

Some senior NLD figures, indeed, detect signs in the reshuffle that the junta, which has run the country since 1988, is stronger and more determined than ever. The three most senior members, often said to be at loggerheads, have evidently managed to put their differences aside for a spell. They also took the bold step of recalling many of the powerful regional military commanders to desk jobs in Yangon. They are evidently making preparations, but whether to dig in or open up is unclear.

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Pakistan's economy

Bombarded

Nov 15th 2001 | ISLAMABAD
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The war takes its toll

IF YOU find it necessary to explain to potential buyers that your factory is not, in fact, on the outskirts of Kandahar, you are in trouble. One clothing manufacturer based near Lahore, some 770km (480 miles) away from the Taliban's headquarters, recently disabused some Australians of just this notion. But this and related worries, about the stability of Pakistan's government and the antics of its own extremists, have frightened Pakistan's foreign customers, raised freight-insurance charges and contributed to a general uncertainty that has given the economy a knock. The finance ministry estimates that the short-term losses in trade, manufacturing, foreign investment and government revenue amount to nearly $2 billion, even assuming normality returns by January 1st. The Pakistani arm of ABN Amro, a Dutch bank, has lowered its forecast of economic growth this fiscal year by up to a full point, to 2.5-3.1%.

If the news were all bad, though, Pakistan's rupee would not have appreciated against the dollar since September 11th, the stockmarket would not have surged and gross reserves of foreign exchange would not be at their highest levels ever. Some of this can be dismissed as war-related happenstance: fewer goods are being smuggled in from Afghanistan and oil prices are lower, keeping money from flowing out of Pakistan; a feared crackdown on banking havens in the Gulf is driving money in. But some of it reflects optimism that Pakistan will gain more in the long run from strengthening its ties to the world economy than it will lose in the short run from the war's fall-out.

So far, more has been promised than delivered. The collapse of the Taliban has already sparked fears that the West will lose interest in Pakistan, prompting a slide in the rupee on November 14th. The president, Pervez Musharraf, returned from a trip to the United States this week with the pledge of $1 billion in assistance and a “maybe” to Pakistan's request for greater access to the American textile and clothing markets. The European Union has already assured Pakistan of such additional access, which will boost Pakistan's biggest industry once nervousness and recession eventually start to subside.

Slipping shipping
Karachi port operations

Period	Exports '000 tonnes	Imports '000 tonnes
Sept 1-10	18.9	71.1
Sept 11-30	19.5	59.4
Oct 1-15	12.4	59.9
Oct 16-31	12.9	58.0
Nov 1-7	9.9	49.1

Source: Karachi Port Trust

Pakistan, which has some $38 billion of foreign debt, is expecting the most significant boost to come from new loans and easier terms on old ones. The IMF is soon expected to announce a large “poverty-reduction and growth” loan, with conditions relaxed somewhat to take account of the crisis. That is to be followed in December by the restructuring of at least part of the $12 billion owed to foreign governments.

Without structural reforms, these gains will be squandered just as were the goodies bestowed on Pakistan during its earlier tours of duty as a front-line state. There will be “no question of reneging on any of the reforms,” says Mueen Afzal, a senior official in the finance ministry. An ambitious plan for reform of the Central Board of Revenue, one of the main sources of the fiscal haemorrhage, is to be finished this month. The government says it is pressing ahead with reforms of the judiciary and police, of social services and of government accounting and auditing practices. After the crisis passes, the government should be able to resume privatisation, starting with the telecoms company and the oil marketing firm. And perhaps the new Afghanistan will turn out to be not such an undesirable neighbour as the last one.

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Consumer protection in China

A shopper's friend

Nov 15th 2001 | BEIJING
From The Economist print edition

Wang Hai goes after the cheats

IN A small, dimly-lit office in the northern outskirts of Beijing, a new Internet venture is trying to cash in on the growing demand among Chinese consumers and businesses for protection of their legal rights. One of the company's investors is Wang Hai, who has become something of a hero in China as a campaigner. Wanghai Online Information & Consulting hopes that Mr Wang's fame will attract clients willing to pay for legal help.

Wanghai Online is a commercial spin-off from a growing body of individual activists and non-governmental organisations (NGOs) that has begun to emerge in China as the Communist Party retreats from its once all-pervasive involvement in public affairs. The “Wang Hai phenomenon”, as some Chinese newspapers call it, began in 1995 when Mr Wang discovered a little-publicised section of China's new consumer-protection law. Clause 49 says that business operators found to have committed fraud in providing goods or services must compensate the consumer with a sum double the amount paid. Mr Wang bought a number of fake products—which abound in China—then demanded compensation from the shops that sold them. The media and public lionised him. Fearful of reprisals from angry shopkeepers, Mr Wang took to wearing dark glasses. They have now become his trademark.

The Communist Party had no reason to discourage Mr Wang. Such activism has helped China to convince the public and especially the outside world that it is serious about protecting intellectual-property rights. Demonstrating such commitment was an important part of China's bid to join the World Trade Organisation (WTO), which was finally approved last weekend after 15 years of talk.

But activism such as Mr Wang's is changing China in even more important ways than simply helping the country's downtrodden consumers. It is the driving force behind the development of autonomous NGOs that are trying to fulfil the needs of citizens as the party becomes less able or less willing to do so itself. While Mr Wang is engaged in making money—albeit with the stated motive of helping and educating consumers—many others like him have established organisations which belong more clearly in the NGO category. They are engaged in a wide range of activities, from advising women to campaigning for environmental protection. China's fledgling NGOs avoid confronting the party, which may be grateful for some of their services but is still extremely wary of any organised force. Since the government began its campaign against the Falun Gong spiritual movement two years ago, it has been particularly difficult for NGOs to register. The party regards the Falun Gong, which had acquired millions of members by the time the authorities banned it, as evidence that its grip on power could be threatened if it allowed citizens more freedom to organise. Many NGOs try to get round this by registering as businesses or affiliates of government institutions.

The government sponsors a group called the China Consumers' Association, which approves of Mr Wang's efforts. “We'd like to see more of this,” says its publicity director, Yang Ke. But in the field of consumer protection, as in many others, it cannot hope to provide the service that Chinese need in such a rapidly evolving, poorly regulated market economy. Miss Yang says she hopes that China's entry to the WTO will spur the development of consumer NGOs. The association's budget helps to explain why. While Miss Yang's organisation has a mere 2m yuan ($244,000) to spend every year, its counterpart in tiny Hong Kong, the Consumer Council, receives more than HK$60m ($7.7m) from the territory's government. “We can't compare,” she laments.

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South Korea

Presidential dreams

Nov 15th 2001 | SEOUL
From The Economist print edition

Kim Dae Jung has two last wishes

AP

Kim looks to his legacy

WITH little more than 15 months to go before leaving office, President Kim Dae Jung of South Korea is wondering how he would like best to be remembered. Under the country's cautious constitution, he cannot run for a second term. Many Koreans admire him as a statesman, but Mr Kim, still vigorous at 75, probably seeks more than dull respectability. At home, he wants to see a marked improvement in the lives of his people, and abroad to persuade North Korea to behave much more sensibly. Neither task is going to be easy.

Mr Kim has been kind to North Korea, too kind in the view of some. He has provided the North with unconditional aid, but the communist regime there has remained obdurate. This week the two sides met at a resort on Mount Kumgang, a site chosen by the North for its lack of comfort. The rooms were poorly heated and the plumbing dodgy. The North was unable to agree to such seemingly simple matters as a resumption of the reunion of families separated by the border. No joint statement was issued, and the North refused to agree to a timetable for another round of talks. On November 14th, Mr Kim's unification minister returned home empty-handed. After that, supplying aid to the North could become more difficult. Parliament is expected to pass a law requiring its approval for any spending designed to further inter-Korean economic co-operation.

Mr Kim kicked off his presidency with ambitious plans for the reform of health care, education and other everyday essentials. Some of these reforms have failed or need rethinking. But it is too late to save them, according to Kim Mahn Je, an opposition member of parliament responsible for policy reviews.

The president is going to try. To concentrate on his tasks, he resigned last week from the leadership of the ruling Millennium Democratic Party (MDP). This, however, has left the party temporarily without anyone at the helm. At least six people are campaigning for either the party's leadership or its nomination for the presidency. A committee was formed this week to thrash out the rules for choosing the party's presidential candidate, and a choice has to be made by April. Commentators are watching to see whether Mr Kim, who founded the MDP, will remain impartial in the selection procedure, or will intervene. The party needs a candidate strong enough to rally the different factions. Otherwise the MDP may break up. South Korean political parties have been notoriously fragile in the past.

Many people suspect that Mr Kim may block Rhee In Je, a politician with a fair chance of winning the nomination, but who ran against him for the presidency in 1997. He would instead back a candidate more to his liking: someone who could be portrayed as a reformer, and who is ideally no older than his early 50s, like Mr Rhee. He could come from anywhere in the country except the Cholla region, in the south-west, Mr Kim's political stronghold which he cannot be seen to favour. The party's name could be changed to make it look more broad-based. The opposition Grand National Party, at present the favourite in the race, would have a fight on its hands. The outcome, say commentators, would be highly unpredictable.

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Irian Jaya

A separatist murdered

Nov 15th 2001 | JAYAPURA
From The Economist print edition

The death of Theys Eluay has angered Irian's Papuans

IRIAN JAYA has been rattled by the sinister death of Theys Eluay, the pro-separatist leader of its ethnic-majority Papuans. The killing has also left the government in Jakarta tarnished by suspicion of a political killing in its vast eastern province, where the native Papuans have never accepted incorporation into Indonesia. The murder looks uncannily like the sort of act that used to happen under ex-President Suharto, and which President Megawati Sukarnoputri promised was a thing of the past. Even the speakers of the country's two parliamentary chambers, not normally friends of separatists like Mr Eluay, say his death was plainly political.

Mr Eluay was abducted, along with his driver, on November 10th. His body was found the next day in his car, near a cliff close to the border with Papua New Guinea. Doctors who carried out an autopsy could not clearly establish the cause of death. The incident might have ended as a mystery had not the quick-thinking driver—who is missing, feared dead—managed to make a call on Mr Eluay's cellphone. He told Mr Eluay's wife that they had been taken hostage by men, non-Papuans, with guns. Then the telephone went dead.

For Mr Eluay's former deputy and successor as chief of the Papuan Presidium Council, Thom Beanal, the news that they were non-Papuans means the armed forces were surely involved. Most Papuans agree. Conceivably, the driver might have meant non-Papuan civilians: Irian Jaya has a large population of Indonesian migrants. But they are widely resented by the indigenous people and live in fear. Mr Beanal says migrants would be afraid to commit such an act.

Moreover, Mr Eluay was returning from an event held by the army's special-forces branch, Kopassus, a unit with a dark reputation. Kopassus denies it killed him but that has cut little ice among Papuans. Kopassus has always routinely denied carrying out extra-judicial killings.

What next? Human-rights groups around the world have condemned the killing of Mr Eluay and demanded an independent inquiry, preferably with international involvement. Aides to Mr Eluay think the government has taken advantage of the Afghan fighting to disregard human-rights concerns and deal with a man who was a thorn in its side. The world's eyes have been elsewhere for months and President George Bush is desperate for the support of the world's largest Muslim nation.

But in the end Miss Megawati may also be a loser. Mr Eluay wanted independence through peaceful dialogue, but his words fell on deaf ears. During a long dispute about the flying of the banned Morning Star flag last year, Mr Eluay played a leading role in negotiating with the police to try to avoid violence. Now Papuans are inflamed. And a big anniversary is coming. December 1st 1961 was the start of a brief period of partial self-government, brought to an end 18 months later when the United Nations gave the territory to Indonesia.

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Algeria's floods

Torrent of water, torrent of rage

Nov 15th 2001 | ALGIERS
From The Economist print edition

EPA

The floods have killed hundreds of people, and Algerians are blaming their rulers

Get article background

LAST week, on November 9th, Algeria's minister of religious affairs called the faithful to pray for an end to two years of drought. The skies replied with a vengeance. A month's rain fell in the next 24 hours, unleashing killer floods in the centre of the country. The floods, in turn, released a torrent of pent-up rage over alleged government negligence.

Well over 600 Algerians are known to have died in the floods, and thousands of others have lost their homes. In the capital alone, more than 500 bodies were pulled from the mass of mud, collapsed buildings and mangled vehicles left by the storm. Officials said it was a freak of nature that had sent a wall of water barrelling down the steep, narrow streets of the slum district of Bab al-Oued. The rainfall was indeed the heaviest recorded in 20 years. Yet the residents of Algiers had reason to complain.

Despite signs of rising water, the police failed to stop cars approaching danger zones. Hundreds of stranded motorists and bus passengers were flushed into chutes that carried some for miles, all the way to the sea. Whereas shoddy road repairs are said to have blocked some drainage channels, other storm-drains in the *oueds* or valleys of the capital are known to have been deliberately bricked up in 1997, after it was discovered that Islamist militants, then engaged in a bloody bombing campaign, were using them as hideouts. Despite a 1999 amnesty, in which the government says 80% of the rebels were disarmed, and which certainly eased the violence, residents say that many of these tunnels were never unsealed.

Bab al-Oued, a district famed as an impenetrable rebel stronghold both in the 1954-62 war of independence and in the recent troubles, is also famed for the crowding and dilapidation of its housing. Hundreds of buildings have long been condemned, and their residents promised new homes. But the state has done little to honour these promises, which inhabitants say is punishment for their pro-Islamist politics. The residents also complained that the government's rescue efforts, after the floods, were so spotty that they had to dig out victims with their bare hands.

Not surprisingly, scattered riots broke out two days after the flooding, with young men marching towards the city centre, pelting cars and shops with stones. But the bitterness extended well beyond those directly affected by the tragedy. Cartoons in the independent dailies of Algiers were merciless. One depicted survivors wading through water, with a pack of sharks approaching. “Look!” says a man with his belongings tied to a stick, “Here comes the

“Look,” says a sodden cartoon figure, pointing to approaching sharks, “Here

government.” Another, referring to a belated visit to some stricken areas by Algeria's president, Abdelaziz Bouteflika, showed a sodden citizen announcing that “Boutef” had been carried off by a torrent. “Of mud?” asks his friend. “No. Spittle.”

comes the government”

Such anger may be excessive, but it reflects the depth to which the state's reputation has sunk. The decade of agony that followed the army's cancellation of the 1992 election—which would have brought moderate Islamists to power—has left an estimated 150,000 dead, most of them civilians. It also stalled the economy, leaving unsolved the severe unemployment, overcrowding and corruption that ignited unrest to begin with.

The country has gone through five heads of state, each promising an end to woe, and each ending up beholden to the shadowy clique of strongmen that Algerians refer to as *le pouvoir*. Ordinary citizens have ended up despising all those who would rule them: Islamist terrorists, feeble political parties that play musical chairs, and the state that claimed to be protecting them but has dashed their hopes, for peace and for better living standards.

Since Mr Bouteflika's arrival in 1998, and particularly since his “civil harmony” amnesty, the intensity of violence between the state and the Islamist rebels has diminished. Clashes, and massacres of innocents, still occur, but at the hands of only two rebel groups in the east and west. By and large, Algerians have learned to live with low-level conflict.

The past year, however, has seen embarrassingly credible revelations of army involvement in past massacres. It has also seen a surge in popular unrest. Around 100 people have been killed in spontaneous rioting across the country, often in protests against police brutality. Kabylia, a prosperous region east of the capital whose largely Berber population has begun pressing for autonomy, is now a no-go zone for the federal gendarmerie.

Ironically, this disintegration of central control comes at a time when the country's economic prospects are improving at last. Two years of high prices for oil and gas, which account for over 90% of exports, have boosted trade surpluses. Debt servicing, which a decade ago ate up two-thirds of export revenues, now absorbs less than a quarter. Concerted efforts to untangle the crippling web of controls, instituted by the socialist-oriented government after independence, are gathering pace. Private investment, particularly in oil and gas but also in telecoms, transport and, soon, in power distribution, is beginning to reshape the economy.

Yet Algeria has a long way to go. The private sector still accounts for less than a quarter of industrial output. The banking system remains primitive and crony-ridden. Unemployment is officially 28%, but even state statistics show that half of the 5.7m “employed” are day labourers, which means that the ratio of full-time workers to dependants is one to ten. If the streets of Algiers present an Augean stable, the image is also appropriate for all of this richly endowed but mismanaged country.

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Palestinian dissent

Be coherent, Dahlan tells Arafat

Nov 15th 2001 | GAZA
From The Economist print edition

The Palestinians' leader may be misjudging the mood of his people

EPA

YASSER ARAFAT was determined, after the attacks on America, not to make the same mistake as he did in the Gulf war when he backed Saddam Hussein. He announced a ceasefire, supported George Bush's "war against terrorism" and made the theoretical promise that his people, bloodied by the year-long *intifada*, would commit themselves to the peace process.

What good has it done? Since September 11th, Israel has killed some 150 Palestinians, including the extra-judicial execution of at least 15 (according to Amnesty International, 18 Israelis have been killed in the same period). Israel has invaded dozens of villages and reoccupied seven Palestinian Authority (PA) towns, still remaining in two of them. Roads are blockaded, towns are sealed and the Palestinians face a vengeful, unaccountable occupying army. Israel says it is compelled to take these measures to defend its citizens against continuing terrorism, including the assassination last month of an Israeli minister, Rahavam Zeevi. But Palestinians believe that Ariel Sharon's offensive is a precooked plan, aimed at ditching the PA once and for all.

Mr Arafat's diplomacy did encourage renewed international engagement, and there are rumours of new initiatives. But, in practice, the pressure has been on Mr Arafat, urging him to crack down on his unruly militants. He has reluctantly done so, at great cost to his domestic standing.

After Mr Zeevi's assassination, his policemen rounded up 60 members of Islamic Jihad and the Popular Front for the Liberation of Palestine, a left-wing group which claimed the killing in revenge for the killing of its leader. The arrests were random, and carried out without even a gesture to legal procedures. Nor have they halted the *intifada*. Mortars are still fired on settlements in Gaza, ambushes are mounted on soldiers in the West Bank, and civilians are still killed in Israel.

But the arrests have caused outrage among Palestinians, especially in Gaza, where the bulk have occurred. On several occasions, PA policemen found the man they were about to arrest defended by armed neighbours. The Palestinian High Court ordered the immediate release of two detainees, a doctor and a lawyer, on the ground that the police had exceeded their own powers of arrest. Mr Arafat ignored this order, though he has released about 30 other detainees, with the proviso that they can be rearrested on his say-so.

All the Palestinian factions, including Mr Arafat's Fatah movement, have publicly condemned the arrests as harmful to national unity and detrimental to the rule of law. On November 5th, Muhammad Dahlan, the PA's chief of security in Gaza, tendered his resignation. He saw the arrests as eroding what little faith Palestinians still had in their authority. But his complaints went beyond this.

He attacked the corruption in the regime and urged that officials should be replaced by others more responsive to people's needs. Above all, he criticised the leadership's incoherent "strategy", which signals a ceasefire to the West but adopts a largely hands-off attitude to the militias. The PA, he insisted, should agree with the factions on a common policy that must then be adhered to. But he also made the point that no ceasefire would hold while Israel was still invading Palestinian areas and assassinating Palestinian militants.

Colonel Dahlan is no radical. In 1996, he disabled Hamas's military wing in Gaza more thoroughly in

eight weeks than Israel had in eight years. But he and his men are natives of Gaza, unlike many members of the cabal around Mr Arafat. And they know that, unless it reforms itself, the PA faces collapse, suffering assault from without and implosion from within.

Does Mr Arafat know this? He refused Mr Dahlan's resignation but announced the formation of yet another security force to “protect PA institutions”, presumably from the wrath of their people. Whatever Palestinians thought of the autocratic traits of their leader, they always viewed him a good judge of their national mood. He may be misjudging it now.

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Zimbabwe's farms

Mugabe's pre-election arrangements

Nov 15th 2001 | BULAWAYO
From The Economist print edition

Zimbabwe's geography is reordered before next year's presidential election

A DESPERATE farmer watches 1,300 settlers building homes on his land. “They tear up our wire fences...they light fires which get out of control, their cattle spread foot-and-mouth disease. Jesus. There's people all over the place.” His 600 workers may soon lose their jobs. He believes he is being persecuted for helping the opposition in last year's parliamentary election. And worse may be to come.

This week, Zimbabwe's president ordered an immediate halt to work on several hundred white-owned commercial farms. They are to be given to black settlers, swiftly and with scant regard for a legal procedure the government says is too cumbersome. The farmers must leave within three months, in time for next year's presidential election, due by April.

Farmers who stay on their land could face prison. Some are already dismantling their irrigation pumps and fleeing to the towns. Others are leaving the country. In West Nicholson, a town near Bulawayo, one smallholder says that 35 of 50 commercial farmers had quit even before Robert Mugabe's latest decree. Among those who remain, a few hot-heads talk of polishing their guns, even poisoning their wells. Tens of thousands of farmworkers and their families have been displaced. And, as the country's most productive growers are replaced by subsistence farmers, the rural economy is imploding.

In Bulawayo, stocks of maize, cooking oil and sugar are running low. Peasants who once sold tomatoes, maize and other goods by the roadside have almost vanished, partly because new price controls encourage them to smuggle some wares out of the country, and partly because food is becoming scarce. The government admits that it must import at least 150,000 tonnes of maize this year, whereas none was needed last year. The World Food Programme estimates that more than 500,000 Zimbabweans are hungry. Next year, as many as 3m may need help.

The government has appealed for over $300m of foreign aid. But charities have been told they may not distribute food to the needy without official supervision: the ruling party wants to use the aid to sway voters. Although their money is welcome, foreigners themselves are not. Jonathan Moyo, the information minister, worries that they might try to teach rural voters about voting procedures or even, apparently, to “smuggle election monitors into Zimbabwe using the guise of food aid”.

Outsiders are barred from monitoring the approach to the election. Some friendly observers may be let in for the vote itself, but the ruling party does not want anyone to see the way it is using mass displacement as a campaign tool. By moving his supporters, including thousands of land-hungry peasants, on to commercial farms, Mr Mugabe gains influence in rural areas. The thuggish “war veterans” who lead the farm invasions are well-placed to assault and murder opposition activists, and to ensure that farmworkers either support Mr Mugabe or do not vote.

Is it “villagisation, Pol Pot-style”?

As food shortages start to be felt, urban workers, who mostly back Morgan Tsvangirai, the candidate of the opposition Movement for Democratic Change (MDC), are returning to their home villages to scratch a living from the soil. One of Mr Mugabe's ministers calls it “decongesting the urban areas”. An adviser to the South African government says it is more like “villagisation, Pol Pot-style”.

Mr Tsvangirai, who has survived three assassination attempts, expects violence in the coming months. He conceded this week that the election was so unlikely to be peaceful or fair that it might have to be postponed. Trouble has already flared. A feared war-veteran leader, Cain Nkala, who was suspected of having murdered an MDC activist last year, was found in a shallow grave this week after being kidnapped

near Bulawayo. It seems unlikely that the MDC was behind the attack. But it gave the police an excuse to raid its offices, arrest its supporters and block roads.

Mr Mugabe is trying to sweeten the army and cow the media. Military spending is to rise from 9% of the official budget to 12%. Workers in state television, radio and newspapers have been told to support the ruling party or resign. Senior staff at the *Daily News*, a popular and independent newspaper, have been detained for the umpteenth time. Foreign journalists are barred from entering the country.

All this points towards anxiety in high places. Opinion polls suggest that the two candidates are neck-and-neck. If the voters can believe their ballots will be secret, Mr Tsvangirai still has a chance.

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Sex in Swaziland

Setting a royal example

Nov 15th 2001
From The Economist print edition

An anti-AIDS decree costs the king a cow

AS THE absolute monarch of Swaziland, he is above the law, but King Mswati III likes to set an example. When rumbled cohabiting with his fiancée, in clear breach of a sex ban he imposed only two months ago on all Swazi maidens, the king faced up to his responsibilities and fined himself one cow.

Will she have to wait five years?

King Mswati is worried about the spread of AIDS in Swaziland, and with good cause: roughly a quarter of Swazi adults are HIV-positive. To fight the virus, he revived an ancient chastity law. For five years, he announced via courtiers, virgins would be barred from so much as shaking hands with males. They would also be expected to wear traditional blue and yellow tassels to warn Swazi men not to touch them.

Enforcing the sex ban has proved difficult. Some maidens complain that if they have to wait five years before marrying, they will be too old to attract a husband. And some Swazi men have had trouble curbing their urges, as Mswati's own story illustrates. The 33-year-old king has seven official wives and two fiancées. His latest engagement, to a 17-year-old schoolgirl, was announced shortly after the sex ban, prompting 300 outraged maidens to protest by symbolically delivering their tassels to one of the royal huts. The king made amends by surrendering one of his enormous herd to the village where his fiancée lived. The beast was roasted and eaten amid much rejoicing.

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Expanding the European Union

The door creaks open

Nov 15th 2001 | BRUSSELS
From The Economist print edition

The EU may, within three or four years, let in ten more countries all at once

Get article background

IT WILL be soon and it will be big. That was the thrust of the European Union's annual report on negotiations to bring new countries into the club. Thirteen of them have asked to join the 15 that are already members. Most are from Central Europe and have been knocking at the gate since the fall of communism in 1989. It may soon swing open. According to the EU, negotiations with as many as ten countries may well be concluded by the end of next year, paving the way for them to enter the Union as early as 2004, though many people in Brussels still reckon 2005 is more likely. The ten new members would add some 75m people to the EU's present population of 375m.

There are still no promises. All of the ten countries that aspire to finish negotiations next year have big hurdles to jump. Apart from the political bargains that need to be struck, the sheer technical slog of converting some 80,000 pages of EU law into domestic legislation is enormous. What is more, the applicants must convince the EU that they have not only enacted the laws but can actually apply them. Some of the candidates may yet fail to keep to the timetable over the next year.

But although the EU's report cannot say so, since it restricts itself to technical assessments of readiness, the political logic points increasingly to a “big bang” enlargement. That is because it is widely felt, particularly in Germany, that a first batch of new members that excluded the biggest candidate, Poland, would not be worth having. And since Poland is a relative laggard in the negotiations, an enlargement that included the Poles would probably have to include quite a few others that might not, under strict criteria, have been in the first intake. A similar logic also suggests that it would be hard to admit one Baltic state but not all three—or the Czech Republic without Slovakia. So, barring the most blatant lapses on the part of one or more of the applicants, ten looks like being the number.

If there are negotiating problems still unresolved by the end of next year, they are just as likely to emerge from the European Union side. The biggest dampener to the EU's current optimism is that the really big issues, in particular the future of agricultural policy and regional-aid funds, have yet to be dealt with. These questions will rattle the EU hardest because they cost most money. Together, agricultural and regional aid account for almost 80% of the EU's *euro*96 billion ($85 billion) budget. And since the applicant countries are on average much poorer than the existing members and have a great many farmers, they could be a big strain on the EU's budget.

Getting around the problems of agricultural and regional funds will be next year's great task. It will not be made any easier by the presidential election in May in France, the biggest beneficiary of the EU's current system of farm subsidies. And the fact that Spain, at present the biggest winner of regional funds, is to hold the EU's agenda-setting presidency for the first six months of next year will make it harder to concoct an EU offer that will be palatable to the

applicant countries.

This week's report, however, gives a hint about how the European Commission intends to try to crack the budget puzzle. It notes that the current EU budget runs out at the end of 2006 and that it contains enough money to admit the applicants, under something like the existing rules, for the brief period until a new budget comes into force. So the commission may, in essence, try to squeeze the new applicants into the club first, then hammer out the details of a new settlement on agricultural and regional funds later, as part of the budget negotiations for the period after 2006.

Bang!

Early joiners	View from Brussels	Outstanding problems
Cyprus	Doing well but enrages Turkey	Admitting a divided island
Czech Republic	Nice Havel, weak system	Civil-service and bank reform
Estonia	Star pupils	Eurosceptic people
Hungary	Best of the bigs	Must treat Gypsies better
Latvia	Should make it	Shoddy admin
Lithuania	OK-ish	Huge nuclear plant
Malta	Much improved	Eurosceptic people
Poland	Awkward but indispensable	Too many farmers
Slovakia	A bit ropey, but improving	Fell behind under Meciar
Slovenia	Better than some present members	Too slow to privatise
The laggards		
Bulgaria	Willing pupils, may be in by 2008	Poor, corrupt
Romania	Loads to do, will join in the end	You name it
Turkey	Good grief, do we have to?	Generals too powerful, dodgy democracy

Stymied by an islet?

One other problem may yet throw the whole enlargement business into crisis: Cyprus. At present the EU is negotiating just with the internationally recognised Greek bit of the island and ignoring the Turkish-occupied bit. Although the EU has always said that it would prefer to admit a united island, that prospect is looking increasingly distant since peace talks are stalled. So the EU looks likely to admit a divided Cyprus, particularly since Greece has threatened to veto the entire enterprise if Cypriot entry is blocked.

However, many existing EU countries are queasy about letting in a divided Cyprus, fearing that such a development might make Turkey, a valued member of NATO, turn its back on Europe and even on all the main western clubs. So a stand-off over Cyprus could yet delay the whole venture. It would be cruel indeed if the former communist countries of East and Central Europe, having struggled through a decade of tortuous negotiations and painful changes, were to find entry to the EU blocked by what must seem to them a footling dispute over an island of just 750,000 or so people.

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Gibraltar

Will the rock be rolled over?

Nov 15th 2001 | MADRID
From The Economist print edition

Gibraltarians suspect Britain is ready to give Spain a foothold

IT HAS been a rock of contention for nearly three centuries, but now Spain sees its way to a foothold on Britain's colony of Gibraltar. Not just are the two countries NATO allies and EU partners, as Tony Blair emphasised after meeting Jose Maria Aznar in London last Friday, but so, personally, are those two leaders. Mr Blair is “determined” to make progress on the issue; and his Europe minister, Peter Hain, has publicly warned the 30,000 Gibraltarians that they cannot stay “stuck in the past”.

Not surprisingly, they smell betrayal on the agenda when British and Spanish officials meet next week. It will be more than just a session about the minor irritations that the dispute has led to. Peter Caruana, Gibraltar's chief minister, is welcome—as part of Britain's delegation—say both capitals. No way, says he; he wants to be there with a voice of his own, and with a veto for his voters on any deal.

What they could gain is plain: an end to Spanish pinpricks—long delays at border crossings, restrictions on the use of the airport, and always the risk (a real one, as the past 30 years have intermittently shown) of additional pinpricks if Spain wishes to add point to its old allegations that the Rock is a nest of smugglers and funny finance. So what has Gibraltar to fear? Does not its 1969 constitution demand a referendum before any change in its status?

Yes, but. Mr Hain last week assured the locals that they would have “a vote on their future” and “would not have to sacrifice their citizenship unless they freely choose”. It took no legal genius to note that citizenship is one thing, sovereignty over the place you live in another. Mr Caruana, a lawyer, noted it. But the constitution? Whatever the haggling behind, or the wording within, any colony's constitution, ultimately it is the colonial power that writes it and can change it.

Britain and Spain would love to get the Gibraltar irritant out of the way. So would their EU partners: why should a speck on the sole of Europe delay serious business, as at times it does, for instance over the control of air space?

To outsiders, joint sovereignty looks an obvious deal. Spain proposed this in 1997, but with a big extra: that after a period long enough for most of today's Gibraltarians to have died, the territory would become part of Spain. Joint sovereignty—not next week but one day—is indeed what the two governments are fumbling towards. It could work, given plenty of goodwill on all three sides.

There is no sign that today's Gibraltarians would give any such thing, though Mr Caruana talks politely about the Spaniards. To them, the answer is far more obvious. The colony has been one since a treaty of 1713 (more exactly, as they tend not to add, the Rock itself has; the isthmus linking it to Spain simply drifted into British hands in the early 19th century). So why not let it stay that way? The quarrel is (well, almost) entirely of Spain's making. Why should not Spain simply drop it?

Why not? Because not, is Spain's answer. “The current situation is untenable,” wrote *El Pais*, that country's grandest daily paper, at the weekend, as a simple, self-evident, unargued statement of fact.

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A crisis in Germany

To the polls?

Nov 15th 2001 | BERLIN
From The Economist print edition

Gerhard Schröder may feel obliged to hold—and may want—an election

EPA

Schröder studies the odds

THE ruling coalition of Social Democrats and Greens has encountered—and survived—so many hiccups in its three-year life that most Germans dismiss talk of a government crisis with yawns. This time, however, the crisis is real. A vote due to be taken in the lower house of parliament on November 16th could seal the fate of Gerhard Schröder's government. A variety of outcomes is possible. One is that Mr Schröder may feel obliged—or might actually contrive—to hold a snap general election, which by most people's reckoning he would probably win.

Exasperated by his Green partners' conscience-stricken hand-wringing over his efforts to put Germany back as a leading power (even a military one) on the world stage, the chancellor is to ask parliament for a combined vote of assent—both to let him send up to 3,900 German troops to help support America in its fight against terrorism, and at the same time to give his government a general vote of confidence. This is a big gamble, and only the fourth time since the second world war that a chancellor has taken one like it.

Mr Schröder tried hard at first to persuade the traditionally pacifist Greens to back the government's “unlimited solidarity” with the United States after September 11th, cajoling and threatening them but to no avail. Although the Greens' leaders were ready to send troops abroad, a hard core of their MPs and three-quarters of their supporters remained solidly opposed. Mr Schröder then changed his tune, saying it did not really matter if MPs from the parties in the ruling coalition were unable on their own to guarantee the government its majority, as long as parliament as a whole gave it the nod. Since the main opposition parties had said they would support the mobilisation of German troops, that looked assured. Mr Schröder's government would then have got its way, as it had over sending troops to Macedonia this summer, despite the rebellion of 19 Social Democratic and five Green deputies.

But peacekeeping in the Balkans is one thing, assisting the fight against those who have, in Mr Schröder's words, declared “war against the whole of civilisation”, is quite another. Just when the German public's support for the war in Afghanistan is beginning to falter, Mr Schröder considers it vital that the government is seen to stand tall. Moreover, he is determined to bring about what he calls a “fundamental change” in Germany's foreign policy. The days when Europe's economic giant could sit timidly on the sidelines, declining (as in the Gulf war) to go to war abroad, are, he said recently, “irrevocably gone”.

When it became clear earlier this week that the government would not be able to muster a comfortable majority from its own ranks, Mr Schröder decided to change tack yet again and go for broke. The opposition has already said it will vote against the confidence motion. If just eight Green and Social Democratic MPs vote against the government, it will be defeated.

Then what? Mr Schröder would have several choices. He could stumble on with his present partners. He could drop the Greens and govern as a minority. He could try to build a new alliance with the Free Democrats (liberals) or to form a “grand coalition” with the Christian Democrats, though neither party sounds keen. Or he could—in a most unusual step—ask President Johannes Rau to dissolve parliament and call a general election.

Too much greenery-yallery

The anti-war rebels may yet toe Mr Schröder's line. But there are signs that he may actually want to lose the vote of confidence. Although the Greens have on the whole been loyal partners and—in some voters' eyes—a good anchor on the left as the government has veered to the right, Mr Schröder has become frustrated by their trickiness in foreign and security matters.

Besides, holding a snap election, rather than waiting for next autumn when one is officially due, might be tactically astute. Mr Schröder has rarely been so popular. The opposition is rowing over who should lead it into the next election; it is quite unready for an immediate one. And, though the economy is in decline, most voters have yet to feel the pinch. By next autumn, things could be a lot worse. A quick vote might suit Mr Schröder just fine.

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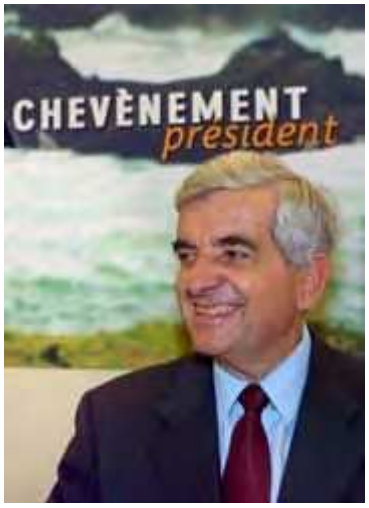
France's third man

More than a spoiler?

Nov 15th 2001
From The Economist print edition

Is Jean-Pierre Chevènement in with a chance?

EPA



"THE Last Temptation for the Right" proclaimed a headline this week in *Le Figaro*, France's leading conservative newspaper. But can the left-wing Jean-Pierre Chevènement really seduce disaffected right-wing voters in his campaign to be France's next president? After all, Mr Chevènement founded his own political party, the Citizens' Movement, precisely because he felt the Socialist Party was becoming too tame. Moreover, surely he is a touch too impulsive, or certainly unpredictable, for conservative tastes: he is famous for having resigned on three occasions from ministerial posts, the last time in September last year when he was interior minister in the Socialist-led government of his friend, Lionel Jospin.

But if a proper love affair looks unlikely, there is an awful lot of flirting. Mr Chevènement may be an oldish-style Socialist (in ministerial practice he usually turned out to be pragmatic) but he is also an oldish-style "republican": what attracts some right-wing voters is his opposition to European integration (he voted against the Maastricht treaty and opposed the euro) and to the devolution of powers to the regions, especially to a Corsica he considers would be run by bandits and terrorists.

Hence his rise in the opinion polls. In the latest, some 12% of the respondents said they would vote for Mr Chevènement next April in the first round of the presidential election. That puts Mr Chevènement ahead of lesser hopefuls on both left and right, though in theory it is hardly the sort of figure to worry the two leading candidates, the incumbent conservative president, Jacques Chirac, and Mr Jospin, the prime minister with whom he has uneasily "cohabited" for the past four years. After all, in the opinion polls they regularly get more than double Mr Chevènement's level of support.

Yet dig deeper and Messrs Chirac and Jospin may both feel a little disconcerted. For example, some 37% of the electorate—including 40% of those who sympathise with the right and 44% of those with left-wing allegiances—would apparently like to see Mr Chevènement in the second round of the election. Only two candidates can go through to the second round, and no one seriously doubts that the two will be anyone other than the president and the prime minister.

However, given the narrowness of the margin between them, neither can afford to alienate those voters who in the first round choose Mr Chevènement. In other words, the "third man" cannot be ignored—which is why so many would-be presidents, notably the centrist François Bayrou, the Thatcherite Alain Madelin and the extreme-right Jean-Marie Le Pen, are jostling, so far ineffectually, with Mr Chevènement to play that role.

The question is how to deal with the third man. One traditional way is to dangle promises of future political favours. Perhaps Mr Chevènement could be President Jospin's foreign minister, even prime minister. Perhaps Mr Madelin could be President Chirac's finance minister, even prime minister; and so on.

Try to forget him

But a better way is surely to minimise the third man's importance from the start. For Mr Chirac, whose various scandals have been conveniently forgotten in the aftermath of the September 11th attacks on

America, the trick will be to keep looking “presidential” (even his enemies reluctantly admit he is having “a good war”); to niggle away at the government's sensitive spots, notably crime and the ordinary person's purchasing power; and to hope that in the end conservatives will neither vote against him nor abstain if it means the election of Mr Jospin.

And for Mr Jospin? This week the Socialist Party published a 40-page document, “Changing France”, extolling its performance since the parliamentary election of 1997: a million and a half new jobs; a shorter working week; lower taxes; wider health coverage; and any other factor that can be given a favourable spin. And when the right mocks the claims, the left can retort that, unlike Mr Chirac, at least Mr Jospin has a performance to defend.

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Kosovo and Macedonia

Better and worse

Nov 15th 2001 | SKOPJE AND PRISTINA
From The Economist print edition

Kosovo is a bit more stable than Macedonia, but that isn't saying much

LOOK, for a moment, on the bright side. Kosovo and Macedonia, combustible and ethnically divided as they both are, have not relapsed into all-out violence, as many predicted they would. Macedonia's parliament is still—despite worrying delays—expected to endorse an amended constitution that attends to many of the country's ethnic-Albanian minority's grievances. In Kosovo, a beleaguered Serb minority is expected to take part in a general election on November 17th for the first time since NATO wrenched the place out of the hands of a Serb-run administration two years ago; a moderate Albanian nationalist is likely to become Kosovo's president. For the foreseeable future, Kosovo will remain an international protectorate, while outsiders must hold the ring in Macedonia. Extremists in both troubled places are still more or less at bay.

But on both sides of the border between the two they are bold and brutal—and may yet tip this part of the Balkans back into chaos. In Kosovo, gangs of Albanian criminals, claiming to be patriots, still get away with murder. They have again been stirring up trouble across Kosovo's eastern border, in a slice of Serbia near the town of Presevo, which they call “East Kosovo”. As far as nationalists with Greater Albania in their sights are concerned, the border between Kosovo and Macedonia might just as well not exist. They flout the law on either side of it, and cross to and fro, much as they please.

Nerves jangled badly this week after ethnic-Albanian gunmen near Trebos, a village just east of Tetovo, Macedonia's second (and biggest Albanian-dominated) city, killed three Macedonian policemen. The Albanians had wanted to stop the police cordoning off the site of a suspected mass grave where a dozen fellow Slavs who disappeared during fighting this summer may have been dumped by Albanians. A new front line was promptly drawn just outside the village. French troops from the NATO-led force in Macedonia are trying to keep the two sides apart.

Such events bolster Macedonia's Slav nationalists, egged on by the country's thuggish interior minister, who remain intent on keeping the Albanian minority under their thumb. It is mainly they who have been delaying the constitutional changes in Macedonia's parliament that the West is so eager to see enacted (ensuring, for instance, that more Albanians join the Macedonian police and that the status of the Albanian language is raised).

The Slav Macedonians blame NATO and the UN for failing to control Kosovo's Albanian extremists, who slip into Macedonia to make mischief. Many of them, say the Slavs, are tied to two radical Albanian political parties in Kosovo that are competing in the forthcoming election. In Macedonian eyes, the West is cosseting murderous Albanians trying to break up Macedonia.

Still, it is something that Kosovars are managing to go to the polls at all. A year ago a general election looked unlikely. Including postal voters, Serbs may make up about a fifth of the electorate, perhaps enough to help more moderate Albanians keep the extremists out. Once a 120-strong assembly is elected, it will vote in a president, probably Ibrahim Rugova, whose nationalism is mild by Balkan standards. Locals will be expected to run various arms of government, including transport, education and health, but foreigners will still oversee such matters as tax and security.

Albanian moderates and more ardent nationalists alike want independence for Kosovo. That is not in the offing: the UN Security Council's Resolution 1244, stating that Kosovo falls under Yugoslavia's sovereignty, is still in force. But that could change if Montenegro, still unhappily yoked together with Serbia as the rump of federal Yugoslavia, were to unhook itself. The West, which has been trying to get on better terms with Serbia's new leaders in Belgrade, is therefore hoping, for the time being, that Montenegro stays put.

Kosovo, however, remains divided: in a chunk of land north of the town of Mitrovica (itself divided), Serbs predominate and Albanians are kept out. Elsewhere, pockets of Serbs and other minorities survive, often in squalor, only because NATO tanks and soldiers protect them. In Macedonia, a similar polarisation of the two communities is as sharp as ever. Peace there is even shakier. With 40,000 foreign troops in the two places (most of them in Kosovo), it is peace of a bleak and very nervous kind.

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Belarus

Bone-crunching

Nov 15th 2001 | MOSCOW
From The Economist print edition

Belarus is as gloomy as ever

THE present is bleak in Belarus, since the country's heavy-handed president, Alexander Lukashenka, won re-election in a tilted poll in September. With no effective opposition, at home or abroad, the future looks bad too. And now even the past is in trouble.

Mr Lukashenka's home-brewed political philosophy, a mixture of paranoia, Russophilia and Soviet nostalgia, has no room for memories of the Stalin-era mass murder of 1937-41, which snuffed out the country's elite and paved the way for post-war Russification. So the authorities are building a road over the country's largest known grave from those terrible years, at Kuropaty, just outside Minsk, the country's capital. Dissidents discovered the site in 1988. They believe that as many as 250,000 victims of Soviet terror may be buried there.

The Belarussian authorities say that the figure is “only” a few thousand and that they could just as well be victims of the Nazis. Since small protests started at the site seven weeks ago, the main weapons in the argument, though, have been bulldozers and riot police, not forensic archaeology.

None of this bothers the brazen Mr Lukashenka. Having flexed their muscles in the election, his people are now squeezing the remains of the independent press, chiefly opposition newspapers in Belarus's regions. Mr Lukashenka has decreed that the economy must grow by 5% next year, along with a big rise in wages.

The IMF, among others, says that sounds unlikely. In unguarded remarks on television this month, the president came close to acknowledging that the state uses assassination against troublesome characters. He was referring to criminal bosses, but many critics say the same methods have been used to kill opposition leaders, including one of the most prominent, Viktor Gonchar.

So long as Russia carries on providing its poverty-stricken neighbour with cheap energy, all this seems set to continue. Last week Russia's president, Vladimir Putin, quizzed about his chummy ties with the unsavoury leaders of North Korea, Iraq and Belarus, quipped that “they may be scoundrels, but they're our scoundrels”. Isolating them would serve no purpose, he said. History may prove him right—depending on who writes it, of course.

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Charlemagne

Javier Solana

Nov 15th 2001
From The Economist print edition

The EU's voice in foreign affairs talks loudly—but lacks a stick

EVER since September 11th, the countries of the European Union have been eager to stress that they are as one with the United States against terrorism. Britain's Tony Blair has trotted the globe, trying to put backbone into the American-led coalition. Gerhard Schröder, Germany's chancellor, has promised "unlimited solidarity". Last week Silvio Berlusconi, Italy's prime minister, even held a pro-American rally in Rome. But, for all that, differences in emphasis are emerging between America and its European friends. The biggest is over the Israeli-Palestinian dispute. European leaders think it needs a fresh effort to seek peace if Muslim passions are to be cooled. But they worry about the Americans' reluctance to get involved again.

Javier Solana, the EU's "high representative" for foreign policy, takes some comfort from George Bush's endorsement of the idea of a Palestinian state. He notes that Colin Powell, the secretary of state, has talked of a new push for peace in the area. But he still fears that the United States may be so preoccupied with fighting terrorism that it will be loth to get stuck into Middle East peacemaking at the same time. The Americans are "traumatised", muses Mr Solana, who has previously served as NATO's secretary-general and Spain's foreign minister. "Their shock is much bigger than after the Kennedy assassination." With a hint of European worldliness, he remarks that Europeans have had to live with terrorism for decades. As a Spanish politician, he has seen many colleagues killed by the Basque terrorists of ETA. "I've been to so many funerals and whenever I go back to Madrid I have to check under my car. We know we're vulnerable in Europe; in America they're just having to get used to the idea."

But the European-American difference over the Middle East is about more than diplomats' sensitivity to terror. The Americans are much tougher with Yasser Arafat, the Palestinian Authority's leader, saying he must whack terrorists in the West Bank and Gaza before being allowed to meet Mr Bush. Mr Solana, by contrast, has met Mr Arafat as well as Israeli leaders several times since September 11th. He clearly thinks Israel's demand for a complete cessation of violence before talks can begin is unrealistic, noting with a weary shrug that Ariel Sharon, Israel's prime minister, told him that even stone-throwing breaks the ceasefire. This week Mr Solana and other Europeans, including Romano Prodi, the president of the European Commission, will set off again for the Middle East to try to get negotiations going.

Mr Solana's eagerness on this score arises partly from his feeling that both the destination and the route to it are plain. A final settlement, he reckons, must provide for two distinct states, with guarantees for the security and borders of both Israel and Palestine. But "the problem is that we can't get the train out of the station," since the two sides won't re-engage in serious talks. At a recent dinner in Brussels with Mr Arafat and Shimon Peres, Israel's foreign minister, Mr Solana was both encouraged and irritated by the calmness of the discussion. "I told them: you won the Nobel prize for peace, not for literature, so get serious."

As NATO's old boss, Mr Solana is not at all queasy about thumping terrorists but thinks that military action must be only one component of the remedy, and perhaps not the most important. Political initiatives, particularly in the Middle East, are crucial. So is good intelligence. "If we had ten countries with completely efficient intelligence-gathering and -sharing," he says, it would be a lot easier to win the war against terrorism.

Securing international co-operation is, of course, what Mr Solana is all about. At NATO he had a well-established structure to work with; at the EU he is inventing one as he goes along. Since his appointment in 1999 as the EU's first foreign-policy representative (answering to the club's 15 governments), he has won golden reviews for energy and imagination. A great schmoozer, his tendency to embrace his interlocutors has given new meaning to the phrase "hands-on diplomacy". Along with George Robertson,

NATO's secretary-general, and Chris Patten, the EU's foreign-affairs commissioner (who answers to Mr Prodi and the bureaucracy in Brussels), he has also poured time and energy into the Balkans. Despite much gloom earlier in the year, he thinks the outlook in Macedonia and Kosovo is much brighter.

High representative, low dudgeon

Yet Mr Solana and the EU in general are suddenly having to deal with the widespread feeling that in a world crisis decisions in Europe are once again being taken in national capitals, where power lies, not in Brussels. The EU's high representative for foreign policy must, it is assumed, be frustrated and out of sorts. If so, he does a good job of disguising it. Perhaps he protests a bit too much about how he is in the thick of things: daily telephone calls with Mr Powell and the UN's Kofi Annan; constant meetings with, and calls to, the key people in the Middle East, including some, like the Iranians, to whom the Americans do not talk. When the Americans started bombing Afghanistan, they did not first call Paris or Berlin. “They called the European Union and said ‘Javier, this is going to happen',” says Mr Solana.

The EU, he insists, is “on its way to getting all the assets that a country has” in dealing with an international crisis. But what about guns and tanks? It is the separate nations of Europe, not the EU, that are promising to send troops to Afghanistan; that is why they, not the EU, are in the spotlight. For sure, the EU is trying to set up a rapid-reaction force, 60,000-strong. To this end, Mr Solana will hold a “pledging conference” next week in Brussels. But even when the force is declared “operational”, perhaps next month, it is not intended to be able to react, rapidly or not, to a real shooting war—in, say, Afghanistan. Humanitarian tasks and peacekeeping are all the EU really has in mind for now.

“And how many troops does the pope have?” asked Stalin, when told of the pontiff's disapproval. For all his diplomatic wiles, Mr Solana still cannot answer that question for the EU.

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British politics

Labour's Taliban tendency

Nov 15th 2001
From The Economist print edition

Is Tony Blair showing the carelessness that comes when government is unopposed?

TONY BLAIR'S aides reckon that the prime minister nowadays spends about 50% of his working hours dealing with one aspect or other of the war against terrorism. It is doing him no visible harm. In mid-October, says MORI, Labour's lead over the Conservatives in the opinion polls was, at 32%, higher than at any time since just after it first came to power in 1997. But here is a thought-experiment. If there were no war, or if Mr Blair had chosen not to play such a big part in it, what would British newspapers now be writing about? They might well be full of tales of sleaze, arrogance and control freakery, just as they were at the end of 1999 and for much of 2000.

The bad news you are not at present reading much about ranges from serious embarrassment to minor parliamentary delinquencies. But add it all together. Henry McLeish, Labour's first (ie, prime) minister in Scotland, resigned last week for misusing public funds. While Labour anoints his successor, Scotland's coalition government is being run by a Liberal Democrat. Stephen Byers, the transport secretary, stands accused of misleading Parliament about the sequence of events leading to the recent collapse of Railtrack, the privatised rail company. He emerged from a Commons inquisition this week with his job safe but his political capital much depleted (see article).

The Commons has just expelled Geoffrey Robinson, Mr Blair's former paymaster general and the owner of the *New Statesman*, for three weeks. This was his punishment for having misled MPs about the details of some business dealings with the late Robert Maxwell, a former Labour MP, media tycoon and crook. In the Lords, meanwhile, Lord Falconer, the minister responsible for the Millennium Dome, has had to make a formal apology. Having told Parliament that the famous white elephant had never been insolvent, he now confesses that there was indeed a period of “technical” insolvency during which the Dome had to be kept afloat by public money. The government, incidentally, has yet to find a buyer for the Dome, nearly a year after it closed for business.

These spots of bother would count for less if they did not seem to fit into a larger pattern of what even some Labour backbenchers now perceive as executive arrogance. Labour came to power in 1997 promising to root out sleaze, shake up Britain's over-centralised constitution and make government more transparent. It did reform much of the constitution in its first term. But some of its recent actions suggest that since its re-election last June it has become increasingly intolerant of dissent and exasperated with institutions—from the judiciary to Parliament itself—that seek to check its powers.

A small but telling example is the fate of Elizabeth Filkin, the commissioner for parliamentary standards.

Her contract is not to be renewed when it expires next February. In other words, she has been sacked. She had, it seemed, shown too much zeal in her pursuit of government ministers suspected of breaching parliamentary rules.

Last week, the government published its blueprint to continue reforming the House of Lords. This envisages a largely unelected upper house so feeble that not even Lord Wakeham, who chaired the royal commission on whose report the plan was based, was able to endorse it.

This week, the government delivered another blow to constitutional reformers. In 1996, a year before becoming prime minister, Mr Blair said that if Labour were elected it would introduce a Freedom of Information (FOI) act, promising that such a measure would be “absolutely fundamental” to the way Labour governed Britain. He kept to the letter but not to the spirit of this promise. The bill enacted last November was far weaker than the one the government first proposed. And now it transpires that the main provisions of even this will not in fact come into force for another four years. Maurice Frankel, director of the Campaign for Freedom of Information, pointed out that more than 30 countries had introduced FOI laws, but none had taken so long to implement them.

David Blunkett has added to the overall impression that this is a government that does as it pleases and brooks no criticism. This week the home secretary introduced a bill, crafted in the aftermath of September 11th, giving him draconian new anti-terrorist powers (see article). He swatted away the complaints of libertarians as “airy-fairy”. Unlike Jack Straw, whom he replaced, Mr Blunkett is not a lawyer. Some of his remarks have sent shivers through the judiciary by making open criticisms of judgments that have gone against the Home Office. Last week he warned judges not to use the Human Rights Act, which Mr Straw introduced, to overrule the Commons.

Even if there were no war to distract voters and newspapers, none of these embarrassments, delinquencies or signs of arrogance would be big enough on its own to constitute a mortal threat to the government's popularity. All governments have their troubles, and these are minor ones. Labour continues to do well on the issues that voters care about most, such as managing the economy. As all the opinion polls attest, Iain Duncan Smith, the Conservatives' new leader, has so far been no better able than William Hague, his predecessor, to land an effective blow on the admired Mr Blair.

Add them together, however, and it is just possible that the government's recent mistakes betoken the start of a deeper problem. They look typical of the errors that administrations begin to make once they come to consider themselves invulnerable. The Tories cannot touch Labour now. But even Labour, says Bob Worcester, the head of MORI, has its Achilles heel. In June, MORI asked whether people agreed that Labour's policies would in the long run improve the state of public services. At that time, 54% did. By October, this proportion had dropped to 45%. Voters continue to trust Mr Blair. But they are still waiting for him to “deliver”.

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Anti-terrorism measures

And throw away the key

Nov 15th 2001
From The Economist print edition

The government's new anti-terrorism bill is about more than terrorism

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“KAFKAESQUE” is a sloppily used adjective, but in the case of the most controversial measure in the anti-terrorism bill published by David Blunkett, the home secretary, on November 13th, it is entirely appropriate. The bill would enable Mr Blunkett to detain suspected foreign terrorists who cannot be deported because of the risk of maltreatment, without a proper trial and indefinitely. The suspects will not even be informed of the evidence against them. The good news is that their detention will be reviewed every six months, and they will be able to leave for a hospitable third country. Phew.

This extreme measure has required an opt-out from part of the European Convention on Human Rights, which is allowed in the event of a public emergency. The new bill also enables the substance of asylum claims made by suspected terrorists to be ignored, which the United Nations High Commission for Refugees considers an erosion of Britain's international obligations.

The merit of these draconian provisions partly depends on how far terrorism ought to be considered a special criminal case, and whether the government can be trusted to decide who is a terrorist. There is also a practical concern about creating martyrs and inflaming enmities, as happened when Irish republicans were interned in 1971. But at least these measures seem to be genuinely motivated by the threat of international terrorism, which is more than can be said for some of the provisions of Mr Blunkett's bill, such as new powers to photograph suspects and oblige protesters to remove disguises.

Simon Hughes, the Liberal Democrat shadow home secretary, described the bill as “a mixture of the welcome, the reasonable, the worrying and the completely unacceptable”. The first two categories include measures to prevent the spread of weapons of mass destruction and to protect nuclear material and aircraft. The penultimate one includes enabling (and potentially obliging) communication-service providers to retain data, such as e-mail and mobile-phone logs, which they currently dispose of. This will be of limited use in combating terrorists streetwise enough to use pre-paid mobile phones or web-based e-mail, but will compromise the privacy of ordinary citizens.

The bill extends the law on inciting racial hatred to include religious hatred (as well as making religion an aggravating factor in assaults, harassment and so on). When it was first mooted, this idea—presumably intended both to reassure ordinary Muslims and to quieten fundamentalist ones—alarmed a clutch of comedians. Others have wondered whether religious belief is not, by its nature, spikily uncompromising and liable to offend members of other faiths. Mr Blunkett says the new law will not stifle free speech or humour.

He also says that his package is “proportionate and targeted”. To be fair, some of the new powers will be subject to periodic review—though history suggests that temporary legislation has a funny habit of becoming permanent.

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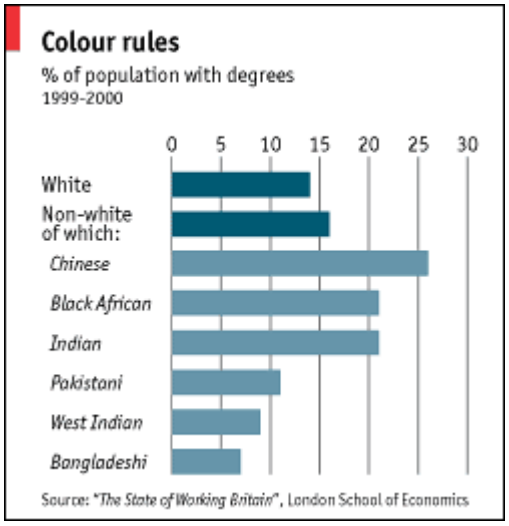
Ethnic minorities

A degree of success

Nov 15th 2001
From The Economist print edition

Members of ethnic minorities are now better-educated than whites



THIS summer's riots in poor Asian areas helped foster the idea that brown and black youths are disaffected underachievers. But that does not reflect the reality among Britain's non-whites as a whole, as a report published on November 16th* shows. Non-whites are better-educated than whites (see chart).

Underneath the average figures there are some interesting divergences. West Indian women (11% of whom have degrees) are the only women who do better than their menfolk (7%). Black Africans do much better than West Indians. The gap between whites and non-whites is larger among younger people, which suggests that second-generation immigrants are doing even better than their parents.

Yet despite their educational achievements, non-whites have a rougher time in the workplace than do whites. They get paid less and are more likely to be unemployed. Their employment rates are more volatile: they are the first to lose their jobs when recession hits. Even among the most-educated ethnic groups (Chinese and Africans), employment levels are lower than among whites.

Granted, non-whites tend to live in the rougher areas of Britain's cities, where jobs are harder to come by, but according to Jonathan Wadsworth, author of the article on ethnicity and the labour market, such differences do not account for most of the gap in employment rates. “There is still”, says Mr Wadsworth delicately, “a substantial residual that needs to be explained.”

*__The State of Working Britain__, edited by Richard Dickens, Jonathan Wadsworth and Paul Gregg. Centre for Economic Performance, London School of Economics; 90 pages; £12.50

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Access to the countryside

Hand in hand across the land

Nov 15th 2001
From The Economist print edition

At last, an issue that unites New and Old Labour

LABOUR long ago gave up even pretending to talk the talk of old-style socialism, but there was evidence this week that it can still walk the walk. The government has just published the first maps showing areas of the country where ramblers and hikers will, in future, have right of access. It's a rare and happy moment for the party, for this is one issue on which New Labour—whose metropolitan roots ensure that it has no time for the landed gentry—and Old Labour—whose socialist roots are buried deep in the idea of free access to the countryside—are as one.

The right to roam may not quite be up there with the nationalisation of the railways or nuclear disarmament, but it has always occupied a special place in the theology of British socialism. The battle for access to the countryside has always been at the heart of the class warfare on which the labour movement was founded. Socialism always overlapped easily with those organisations founded to lead the agitation for access to land, including the Ramblers' and Youth Hostels Associations.

The government has pushed all the right buttons with the type of landscape that they intend to designate as “open countryside”, which includes 13% of north-west England. Much of the area is made up of mountains, heaths, downs and moors. This was the landscape of the Fabian reading parties, communist summer camps and famous socialist ramblers such as Hugh Dalton, who exhausted many a young political acolyte with his monumental hikes up and down the Pennine Way. These socialists wanted to exchange the crowded, regimented capitalism of the industrial cities for the freedom of the hills. And the bleaker the landscape, the better.

Socialists eschewed the comfortable, picture-postcard Englishness of Kent or the Cotswolds. To the historian Raphael Samuel, brought up as a communist by his radical, outdoors-loving mum, those landscapes were “prissy”. Only in the wilderness of the moors, or on the fells of the Lake District, could one perceive “nature in the grand”.

By the 1930s, rambling had become a political cause, and was fought for on occasion by direct action—most famously in the mass trespass of the moorland at Kinder Scout in the Derbyshire Peak District. Ramblers have been delighted to find that Kinder Scout is included in the new legislation. And, even better, they can now trample through the Forest of Bowland in north Lancashire. This is on land owned by the very grand Duke of Westminster, one of the ramblers' *bêtes noires*.

This week, rights-of-way maps of the north-west and south-east of England were published. Six more regions will follow, and then there will be a lengthy consultation exercise. Already, landowners are muttering that the new rights of way will just provide rights for users and increased responsibilities for land managers. But they will get short shrift. On this subject, Tony Blair is guaranteed the enthusiastic backing of all his party.

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House prices

Poor rich

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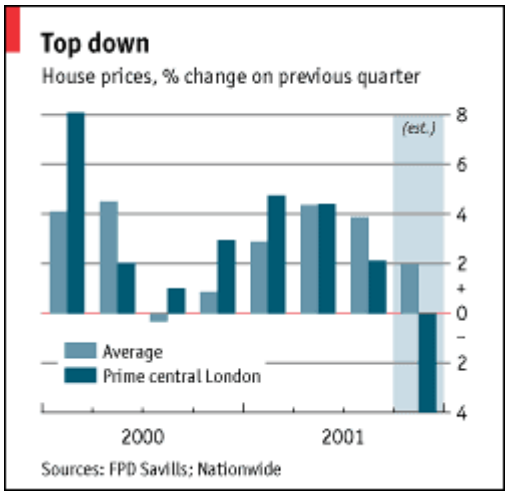
The housing market has divided in two

THE rich, it is generally believed, get richer, while the poor get poorer. Not now, they don't, if you look at what's happening in the housing market.

Over the past few years, expensive properties have outperformed the market as a whole. According to Richard Donnell, head of residential research at FPD Savills, an estate agency, the prime central London housing market—£750,000-plus ($1.1m)—has increased by 180% over the past eight years. The market as a whole has risen by 85% over the period.



But over the past few months, the housing market has divided into two; and September 11th has accentuated that trend. Savills estimates that the prime central London market is falling faster than at any point in the past nine years. Average house prices, meanwhile, are continuing to rise steadily (see chart).

“At the top end of the market”, says Mr Donnell, “buying is discretionary. People don't need to move.” What's more, in the top-properties market, only 40% of the cost of properties, on average, is financed by mortgages. Many rich house buyers do not use mortgage finance at all. So what's happening to the cost of housing finance is less important in determining the price of expensive houses than what is happening in the stockmarket, to City bonuses and jobs, and to the state of mind of the rich.

For the average owner-occupier, by contrast, mortgage finance covers 66% of the price of a property. For first-time buyers, the figure is 80%. As fears of recession have risen, the price of money has fallen to its lowest level since January 1964. And as mortgage payments have fallen, so the price of the average property has gone on going up. Which is fine, of course, so long as inflation does not rise, pushing up interest rates, and the late 1980s play themselves out all over again. In that sort of market, the rich get by and the rest get shafted.

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About sponsorship

Floods and insurance

Looks like rain

Nov 15th 2001
From The Economist print edition

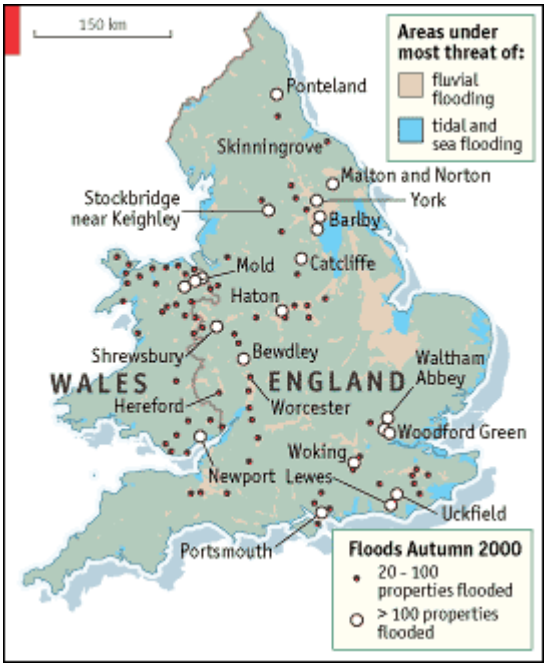
Reuters

The insurance industry is threatening to withdraw cover from nearly 2m properties at risk from flooding

LAST year, the worst flooding for nearly half a century affected around 10,000 properties at a total cost of about £1 billion. This year, even before autumn had really begun, swathes of southern England were already under water. The Environment Agency says that climate change could increase average rainfall in Britain by up to 20% by the 2080s. The bill, as well as the flood-waters, will continue rising, and there is a fight between the government and the insurance industry over who should pay it.

In most rich countries, the government forks out to compensate those who suffer flood damage. That hasn't been true in Britain since 1961, when the government offloaded responsibility for flood damage to the insurance industry. There was a “gentlemen's agreement” whereby the insurance industry guaranteed that all household insurance policies in Britain would include flood insurance.

Both sides did well out of the deal. The insurance companies got to jack up the premiums for millions of houses that would never be at risk of flooding. The government knew that it would never have to pick up the tab for flooding.



But one of the consequences of the agreement, according to David Crichton, an independent environmental consultant, is that the government cut back on spending on flood defences. “If most people in Britain had not been insured against flood”, says Mr Crichton, “there might have been more political pressure to build flood defences.” Britain does indeed spend little on flood defences compared with countries whose government also acts as insurer of last resort. Japan, for instance, has been spending between 0.2% and 0.9% of its GDP on flood defence every year since the 1950s, while Britain spends around 0.03% of GDP a year.

None of this mattered much when flooding was a small problem. But the Association of British Insurers (ABI) now argues that given the recent rise in the incidence of flooding, and the dire predictions about the future, the gentlemen's agreement needs rewriting.

The ABI says that the government should increase its spending on flood defences from £350m a year to

£500m, and it wants tighter planning guidelines to discourage building on floodplains. It says that if there is not “substantial progress” in these directions by the end of 2002, its members will start re-assessing insurance policies in flood-prone areas. People who live in such places could face a drastic rise in their premiums or in excesses to cover flood damage, or they may simply be unable to get any insurance at all.

On a small scale, this is already happening. Several cases have been reported of companies withdrawing flood cover, or slapping excess charges of as much as £2,500 on people who have the temerity to claim on their policies. Companies have also been offering households helpful hints on how to reduce their exposure to flood damage. Tips include putting in tiled floors instead of carpets, or putting kitchen appliances on stilts.

The insurers' threat could have a knock-on effect on mortgages. The Council of Mortgage Lenders estimates that up to 5m people in nearly 1.8m homes, or 7.3% of the housing stock, are now at risk of flooding. Uninsured houses cannot be mortgaged.

Edmund Penning-Rowsell, of the Flood Hazard Research Centre at Middlesex University, argues that the government should call the insurance industry's bluff at the end of 2002. He points out that, thanks to that gentlemen's agreement, insurers enjoy the income from flood insurance they have sold to households on higher ground that rarely needed it in the first place. If the government made flood insurance optional, rather than compulsory, most households would then opt out—and the insurers might lose more money than if they had stuck with their old deal.

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Scottish politics

Jack the cad

Nov 15th 2001 | EDINBURGH
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Accusations of sleaze continue to dog Scotland's Parliament

Reuters

How McClean is McConnell?

JACK McCONNELL'S confession that, seven years ago, while he was the Scottish Labour Party's general secretary, he had an extra-marital affair with a woman colleague was a rarity in British politics. Such admissions, complete with terse declarations of support from tight-lipped wives, normally take place after a politician is hounded from office, not before he gets into it.

It was to avoid such a fate that Mr McConnell, the Scottish education minister and the sole nominee for the job of first minister, made his family difficulties public. The affair had been an open secret; and worries about it, on top of those about his reputation for being a political gambler, contributed to his defeat when he stood for the job last year.

It is not just worries about himself that Mr McConnell needs to still. He also has a lot of work to do to restore voters' belief in Scotland's Parliament. The financial scandal that brought down Henry McLeish last week damaged the institution; and, even though Donald Dewar's death was nobody's fault, having three first ministers in the Parliament's first three years gives an impression of instability. With the Welsh Assembly's two first ministers, plus a Welsh Secretary, Ron Davies, who had to resign amid sexual scandal, devolution in mainland Britain looks shaky.

One of the great paradoxes of Tony Blair's government is that while he has devolved Westminster's power to elected assemblies, he has tried to keep a grip on power through the party machine. He tried, and failed, to stop Ken Livingstone from becoming London's mayor. Alun Michael was correctly perceived in Wales to be Mr Blair's placeman, which led to his downfall. Mr McLeish was a protégé of Gordon Brown, the chancellor of the exchequer, who is anxious to maintain his Scottish power base for any future tilt at the Labour leadership.

But Mr McConnell's rise may be a sign of Westminster's loosening grip. Like Rhodri Morgan in Wales, who took over as first minister from Mr Michael, he does not owe his position to patronage from Labour's leadership. Even though his policies are Blairite, Mr Blair does not view him with any enthusiasm. While general secretary of the Scottish Labour Party, he failed to quell dissent as effectively as Mr Blair would have wished. And the Blairite label ensures the enmity of Mr Brown, who has yet to appreciate that his popularity with Scottish voters and party members does not mean that they want him, or his proxy, to run the Scottish government. This distance from Downing Street means that it will be less easy for the Scottish National Party (SNP), the main opposition in Scotland, to stick the charge of being London's poodle on Mr McConnell.

Yet the SNP's charge that Labour has been corrupted by too many years in power in Scotland will be less easy to dismiss. Mr McLeish was brought down because he had received rent for an office that he had also charged as an expense. Among those who rented his office were the former Fife Regional Council, of which Mr McLeish used to be leader, a firm of lawyers with strong Labour links and a charity funded by the council which employed a woman who is now a Labour councillor.

Mr McConnell has also been accused of benefiting from his political contacts. In the two years between leaving his party job and being elected, he worked for a public-relations firm whose employees were caught boasting, after the Scottish Parliament was elected, of their strong links to Scottish ministers—including Mr McConnell. He was exonerated by a parliamentary inquiry, but his natural swagger, which has earned him the nicknames of “Flash Jack” and “Jack the Lad”, encourages suspicion. And the story of

the affair threatens to cause further trouble, since it has emerged that Scottish MPs were paying part of the woman's salary from their own pockets.

Labour must hope that there is no more dirt around. If there is, Labour's hegemony over Scottish politics may crumble, just as the Tories' grip on British politics fell apart in similar circumstances.

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Public relations

Neither do they spin

Nov 15th 2001
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Ethics in PR? We live in hope

OPTIMISTIC liberals believe that the worst excesses of nasty activities—prostitution, say, or drug abuse—will be eliminated if only the vice is properly regulated. But even the most ardent rationalist must admit that some activities are less amenable to regulation—say war, or public relations.

The PR industry was disgraced earlier this year by the unprofessional antics of Sophie Wessex and her braggart partner. Then last week Brunswick, a leading financial PR company, was accused of rubbishing a rival on behalf of one of its clients (see article). But the biggest embarrassment to the industry has been the behaviour of Jo Moore, special adviser to Stephen Byers, the transport minister. Ms Moore's hard-wired propaganda instinct told her that September 11th was a “good day” to bury bad news—though it didn't prevent her confiding this epiphany in the perilously leakable form of an e-mail.

Governments normally regulate business, rather than the other way round. But with ministers dismissing indiscretions such as Ms Moore's as diversions from the “real issues” (by which they mean the other things they'd rather talk about), it has fallen to the embarrassed PR industry to try to rein in the government. Ian Wright, president of the Institute of Public Relations, wants to introduce a new code of conduct for all PR practitioners, in whatever sector.

Any such code is, alas, likely to be honoured in the breach as much as the observance. There are already various codes of conduct for PR professionals, and even one for special advisers. Though Mr Wright considers this view to be cynically short-termist, the truth is that spin-doctoring is a business in which being good at one's job often means sailing close to the wind. Just as commercial PR jobs are recession-sensitive, a ministerial fall from grace generally spells the end for their special adviser—so there are strong incentives to go for a hard sell.

For many of her peers, Ms Moore's real offence was not hard-heartedness, but the fact that, like Charlie Whelan, fallen spin-doctor to the chancellor, she was cack-handed enough to break the golden rule of PR and became the story herself. For all the outrage her advice provoked, several government departments have since followed it scrupulously, smuggling out policy U-turns under the cover of the war. Businesses, meanwhile, have been quick to blame September 11th for their disappointing results.

So perhaps any code of conduct for the PR industry ought to begin with an old injunction: let him who is without spin cast the first stone.

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Bagehot

Job on the line

Nov 15th 2001
From The Economist print edition

Stephen Byers survived a dangerous week. There will be many more to come

IT IS not only a bit rich of Britain's Conservatives to keep on huffing and puffing about what Stephen Byers, the transport secretary, has done to the railways. It is also a bit stupid. Mr Byers did not handle the renationalisation of Railtrack last month with special aplomb. He refuses even to admit that this is what he has done. (Railtrack, in NewLabourspeak, is to become “a private company without shareholders”.) But there is a strict limit to how much political advantage the Tories can expect to squeeze from the affair. Most voters blame the whole rail nightmare on the last Conservative government, which made a horrible mess of privatising the railways in a rush in 1996. If they had any sense, the Tories would therefore talk about something else. Instead they have forced one debate after another about Railtrack in the House of Commons. Why?

Bagehot's theory is that rational political calculation disappears at the faintest scent of ministerial blood. Nothing excites a British opposition party more than the hope of forcing some big beast out of the cabinet. Mr Byers, for all his ambitions, is not yet one of the biggest beasts in Blairdom. He looks right now more of a straggling wildebeest than a lumbering buffalo. But the Tories fancy that he has become detached from his herd since refusing to sack the political adviser who sent the infamous e-mail declaring September 11th a “good day” to bury bad news. In a debate she organised in the Commons this week, Theresa May, the Conservatives' transport spokesman, seemed to think that the manner in which Mr Byers put Railtrack into receivership offered a chance to finish him off.

This would have been hard enough even if Mrs May possessed sharper claws. As it happens, she is considered by most parliamentarians to be more of a tabbycat than a lioness. But even a sharper Tory predator would have had trouble penetrating Mr Byers's defences. This not only because (though he does not use the word) renationalising the railways has made him a hero of Labour's left. It is also because the various allegations against him suffer from the fatal flaw of complexity.

One allegation is that Railtrack would not have become insolvent if Mr Byers had not decided to make it so. Railtrack's managers accuse him of stopping the industry's regulator from letting them tap emergency funds that were readily available. Here the minister defends himself by arguing that a company in a terminal condition was in effect seeking a blank cheque from the taxpayer, which he courageously refused to issue. Another allegation is that Mr Byers cheated Railtrack's shareholders by letting their shares be traded even after he had decided to put the firm into administration. No, says Mr Byers, he acted as promptly as he could after making his decision. A third allegation is that he misled the Commons when he told it that he had not threatened the rail regulator with legislation to prevent him from offering Railtrack a lifeline in the form of an interim financial review. In this week's debate, this allegation dwindled to a quibble about the meaning of the word “threat”.

Tangled allegations about timing, semantics and company finances are hard to press home in politics. Mr Byers's enemies may do better in the courts, to which some Railtrack shareholders say they intend to drag him. But in the short run—and especially while the Tories are trying so hard to fell him—Mr Byers's place in the cabinet is almost certainly safe.

So who pays?

His longer-term prospects are another matter. For as long as he keeps his job, he will now be expected to give Britain the world-class railway system Labour has consistently promised. But it is still far from clear how he proposes to do this. The ten-year transport plan his department inherited from John Prescott assumed that more than £34 billion ($49 billion) could be raised from private investors. This

may be fanciful now that existing investors have been shown how insouciantly their interests can be set aside. According to leaked minutes, the minister's new plan to turn Railtrack into a non-profit-making trust was deemed by his own civil servants as recently as July neither appropriate nor attractive. It is no surprise that Mr Byers has yet to find a chairman for a trust that is liable to find itself starved of investment and subject to constant ministerial interference.

The day after seeing off the onslaught from Mrs May on the floor of the Commons, Mr Byers was summoned back to Westminster to face yet another interrogation by MPs, this time the anxious members of the Commons transport select committee. Gwyneth Dunwoody, the committee's chairman, asked him whether there were going to be another three years of chaos on the railways. Once again, the imperturbable transport secretary gave a smooth performance. He promised in spite of everything to implement Mr Prescott's ten-year plan, adding for good measure that the government now had “a golden opportunity to remodel the whole railway industry”.

Supreme confidence, supreme ambition and supreme pragmatism have always been the hallmarks of this former polytechnic lecturer. But Mr Byers has never faced a bigger challenge than this. For the past four years, Labour has been able to use Railtrack and its Tory creators as a scapegoat for the ills of the railways. This has now ended. From now on, there will have to be other scapegoats, including, potentially, Mr Byers himself. By assuming direct responsibility for the system, the government will be held to account for everything that now goes wrong.

Plenty assuredly will. It is sobering to reflect that in the five years after the creation of Railtrack, average spending on the rail infrastructure was £1.75 billion a year, and that in the five years before privatisation the average was only £866m a year. Almost everyone agrees that the Tories' botched version of privatisation did not work. That does not guarantee that Labour's alternative will fare any better.

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Families in the boardroom

Under the influence

Nov 15th 2001 | LONDON AND NEW YORK
From The Economist print edition

As the Hewletts, Packards and Fords are demonstrating, founding families often retain a surprising amount of influence on quoted companies

THE conflict has turned decidedly nasty. Walter Hewlett, son of one of the founders of Hewlett-Packard (HP) and a member of the company's board, missed a board meeting in July that discussed a proposed merger with Compaq Computer. Why was he not there? Because, reported CNET News, an online service, on November 12th, he was playing with the Bohemian Club symphony orchestra. The club's members, says the story, are "rich businessmen, politicians and some influential artists". Implication: spoilt rich kid swans off while his family firm debates its future.

And then causes trouble when the firm decides to head in a direction he dislikes. Mr Hewlett recently announced, to the consternation of HP executives, that Compaq was the wrong partner for HP. "With this transaction," he complained, "we get what we don't want, and we jeopardise the things we already have." The Hewlett family and its charitable foundation, jointly controlling 5.2% of HP's shares, will vote against the merger. So, probably, will David Packard, the only son of HP's other founder. He chairs the Packard Humanities Institute, which holds a 1.3% stake. And so perhaps may the David and Lucile Packard Foundation, chaired by another relative, Susan Packard Orr, which controls 10.4% of the company's shares (see article).

Among the ranks of large quoted companies are a surprising number in which, as at HP, the founder's descendants still have an important voice. When a family floats a firm, it usually retains a substantial holding. Think of Wal-Mart, where Rob and John Walton (sons of Sam Walton, the firm's legendary founder) are on the board, which Rob Walton chairs; or Motorola, where Chris Galvin is chief executive of the company his grandfather founded 73 years ago; or Nordstrom, where the family controls 24% of the shares; or Coca-Cola, where the Woodruff family still exerts huge influence.

New versions of such firms will spring from some of the businesses founded in the past few decades, says Amar Bhidé, author of "The Origin and Evolution of New Businesses", as shares in companies such as Dell Computer, Microsoft, Berkshire Hathaway and Home Depot pass on to family trusts or the next generation. All told, reckons Joe Astrachan of the Family Enterprise Centre at the Coles College of Business, part of Kennesaw State University in Georgia, families wield influence at between 35% and 45% of America's 500 largest listed companies, depending on how "influence" is defined.

Most of the time, such descendant-shareholders keep their heads down. They pop up, says Andrew Keyt, who runs the Family Business Centre at Loyola University in Chicago, mainly when senior management messes up, or if it fails to uphold the family's values—as William Clay Ford has done at Ford Motor Company. In October the great-grandson of Henry Ford sacked Jacques Nasser, the chief executive, and took charge himself.

The Ford family controls 40% of the company's voting rights, and has had a history of trouble with the "hired help". The relationship seems to work best with Brits: Alex (now Lord) Trotman, a Scot, retained the family's confidence; Sir Nick Scheele, the new chief operating officer, is thick with Mr Ford; so is David Thursfield, chairman of Ford of Europe and maybe the company's next chief executive.

All businesses start out run by families, or at least by individuals who pass on a stake to their nearest

and dearest. In America, the stake is often in a family-controlled trust. A couple of family seats on the board can pack lots of power, especially if they go with seats on the nominations committee, and so control over the choice of chief executive. Sometimes a family, such as the Watsons at IBM, exerts surprising influence even though its stake is tiny. A larger family stake can serve as a useful poison pill against a hostile takeover bid.

Families can retain control more easily if, as in Ford's case, the company has a share structure that gives special voting rights to a select few shareholders. Such arrangements are fairly common in media groups, such as the New York Times, where the Sulzberger family controls 88% of the votes but has a mere 17% of the company's class A shares. But in general in America, and even more in Britain, they are frowned upon by stock exchanges.

British and American exchanges also insist on fair treatment of small investors. In continental Europe and Asia, by contrast, family control of listed companies is made easier by weaker rules about treatment of minority shareholders and, argues Colin Mayer, professor of management studies at Oxford University, by a complex network of cross-shareholdings. These often allow a single family-owned holding company to control a vast array of quoted companies, as the Agnelli family controls Fiat, for example.

Perhaps because the influence of institutional investors is so much weaker in continental Europe and Asia, families there seem to intervene more often and less bashfully than in America or Britain. At Valeo, a French car-parts group, and at BMW, a German car maker, the controlling families have waded in repeatedly to change top management. In America, by contrast, there have been times when outside shareholders have stepped in to reprimand or even oust a family member. That has happened at Wang, a now-defunct technology company, and at Archer Daniels Midland, an agricultural business.

Family misfortunes

Family involvement can be bad for outside shareholders. One American academic study found that the death of a big inside shareholder typically resulted in a rise in the share price, and the larger the deceased's shareholding, the bigger the subsequent rise*. It is a myth to assume that the family understands the business better than outside managers, especially as generations pass and the business changes. At Gucci, a luxury-goods company, family squabbles almost ruined the business. The family lawyer rescued it.

But conscientious families may not feel the same about the company as do managers or ordinary shareholders. Sir Adrian Cadbury, who has written a pamphlet on corporate governance in family firms (published in Britain by Egon Zehnder, a headhunting firm) and whose ancestors created the Cadbury chocolate brand, sympathises with Mr Ford. “His name's on all the cars, so he has a position as the guardian of the company's values and reputation,” he argues. “That means he's different.” Marilyn Carlson Nelson, boss of Carlson Companies, a privately owned travel group, says that America has respect for family ownership, which “can help to sustain a culture [and] add continuity”.

The Hewletts and Packards reflect a similar sense of family values. Rob Enderle, an analyst at Giga Information Group, points out how much the families' approval matters to the HP merger. “Without them,” he says, “it would be almost impossible to make the deal happen, because so many people in the company look to them for guidance.” Ironically, when Carly Fiorina took over as chief executive, she invoked HP's family origins by running a series of advertisements that featured the garage in which the firm was born. If she is now judged to have betrayed that legacy, the merger, and with it her career at HP, will be dead.

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* “Ownership Concentration, Corporate Control Activity and Firm Value: Evidence from the Death of Inside Blockholders”, by Myron B. Slovin and Marie E. Sushka, *The Journal of Finance*, September 1993

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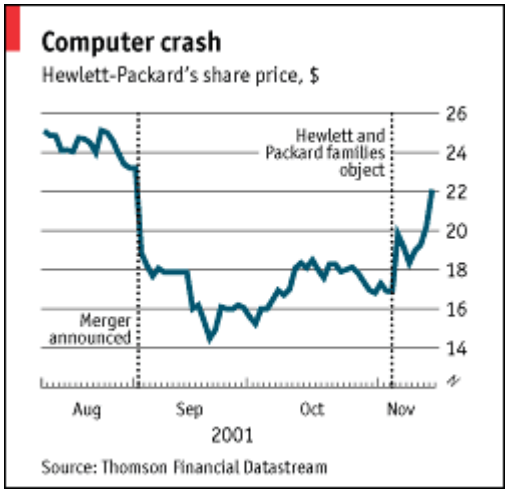
Hewlett-Packard and Compaq

Not at all HP

Nov 15th 2001
From The Economist print edition

Can supporters of the much-denounced takeover save it?



CARLY FIORINA, Hewlett-Packard's chief executive, came out fighting on November 14th. In a conference call with analysts, she announced better-than-expected quarterly results, even though profits were down. Ms Fiorina also reiterated why she believes her $24 billion plan to acquire Compaq is the best way forward for HP, despite objections by Hewlett and Packard family members. Last week Walter Hewlett, whose father co-founded the company, expressed concern that the merger would increase HP's exposure to the shrinking PC market and would distract managers from the more important task of navigating through the recession.

There are two ways to defend the deal. One is to point out its advantages, which is what Ms Fiorina did this week. Merging with Compaq, she said, would enable HP to reach its goals faster than it could on its own. The deal would improve HP's position in key markets such as storage and high-end computing, as well as the economics of its PC business. It would double the size of HP's sales force and broaden its customer base, providing more potential clients for its services and consulting arms. It would improve cashflow, margins and efficiency by adding “breadth and depth” to HP. “Having spent the last several months planning the integration of these two companies, we are even more convinced of the power of this combination,” Ms Fiorina concluded.

It sounds too good to be true, and it almost certainly is. But the other way to defend the deal is to point out that, even if it was a bad idea to start with, abandoning it could be even worse—a view that, unsurprisingly, Ms Fiorina chose not to advance, but is being quietly put forward by the deal's supporters.

Scrapping the merger would be extremely painful for a number of reasons. Since the executive teams of both firms have committed themselves to the deal, they would be utterly discredited if it fell apart, and would probably have to go. Under the terms of the merger agreement, HP might have to pay Compaq as much as $675m if it backed out. The two firms would be considerably weakened; they would also be rivals again, despite having shared confidential technical and marketing information with each other over the past few months. In short, it would all be horribly messy.

What can be done to save the deal? Part of the problem is that HP has no plan B. “They need a brand-recovery effort immediately,” says one industry analyst. HP must give the impression that it is strong and vital, rather than desperate, and that its future is not dependent on the deal going forward. That could make the merger look more attractive and bring investors back on board.

This week's results will certainly help. The David and Lucile Packard Foundation, which owns just over one-tenth of HP's shares, will decide whether to back the merger in the next few weeks, and HP's shareholders are to vote on it early next year. The more credible HP's plan B, the less likely it is that it will be needed.

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Travel and tourism

Not yet giving thanks

Nov 15th 2001
From The Economist print edition

The industry has been bruised, but it will heal

WORLD Travel Market, one of the tourism industry's biggest annual jamborees, opened in London on November 12th. No sooner had delegates begun to compare notes on how bad their business was than news reached them of the crash of American Airlines flight 587 shortly after take-off from New York's JFK airport. All their worst forecasts instantly dipped further into gloom.

The tourism industry has known nothing like this since it became a recognised business. The biggest impact is in America, where fears of recession and terrorist attacks have emptied flights, despite cuts in capacity in September. Although the airlines are using just four-fifths of their capacity, their planes are only 66% full. They need to be 88% full, on average, merely to break even, says Randy Baseler, vice-president of marketing for Boeing's civil-aviation arm. This week, America West became the first carrier to ask for a loan guarantee under the federal rescue plan put in place after September 11th. Airlines in America are now expected to lose more than $7 billion this year.

For American Airlines, the country's largest carrier, this week's crash—its third in two months—is a severe blow. It comes just as it and other airlines were dusting off plans to cut fares and lure back travellers. Early indications pointing to an accident at least spare the airlines a long period of uncertainty in which travellers stay away for fear of a fresh wave of attacks.

Before this week's crash the Travel Industry Association of America (TIA) was already forecasting (optimistically) that overall business would be down by only 6% over the traditionally busy Thanksgiving weekend which starts on November 22nd. It has not yet revised its forecast in the light of the crash, but it has postponed (by a week) a $20m national advertising campaign that had been scheduled to begin on November 14th. The ad features snippets from recent speeches of President Bush exhorting Americans to live their lives as normal.

By some measures, the crash came just as the first signs of recovery were appearing. The TIA's most recent survey of travel confidence showed that the number of Americans planning to take leisure trips in the next six months had risen to its highest since September 11th. Many are being lured by the discounts that hotels and airlines are being forced to offer. Stay a night at an American Holiday Inn, for instance, and you get a second night free. Even top-of-the-range hotels such as the Plaza and the Carlyle in New York have very special offers. For some, pricing is based on what a customer is prepared to pay.

Outside America, it is Muslim countries that have been hardest-hit. Travel-industry people in Istanbul say that foreign visitors to the Turkish city in the past two months are 50-60% down on the same period last year. In Indonesia, 1.3m tourists cancelled trips in the month after September 11th. Even mainly Hindu Bali is bereft, with once lively temple guides reduced to begging. As for Egypt, its stand at the World Travel Market was at times attracting even less interest than that of Belarus.

The industry's pained cries for government help are increasingly being heeded. Egypt is subsidising charter flights into the country, and Mexico has eliminated sales taxes on conventions. Some, though, worry about how all this is going to distort business. Charles Gurassa, boss of the Thomson Travel Group, part of Preussag, a tourism giant, says it should not be “an opportunity to give state aid to those who are already struggling, and always will be.” Even without aid, distortions are appearing: cruise ships and hotels are offering deals at well below cost—and in the process forcing small travel companies out of business.

When the weak and over-leveraged flounder, there are always financially stronger sharks circling. Several parts of the industry are likely to see further consolidation in the difficult months to come,

although Francesco Frangialli, secretary-general of the World Tourism Organisation, points out that further consolidation in some areas, such as package tours for Europeans, might come up against objections from antitrust authorities.

Leading Hotels of the World, a New York-based group, has designed a scheme to protect its 380 independent luxury hotels from the clutches of large predators. Welf Ebeling, the group's chief operating officer, says it has set up a trust with a private-equity firm and other investors to help endangered members through temporary financial difficulties.

Meanwhile, firms everywhere are trying to cut costs, to reassure customers about security, and to persuade suppliers to be more flexible over pricing. Come next summer, the sun may be shining again. The industry has proved remarkably robust in the past, and as Mr Ebeling says: “People today consider it to be their birthright to be mobile.”

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Telecoms

Grasping the nettle

Nov 15th 2001 | PARIS
From The Economist print edition

A string of painful write-offs is better news than it seems

RECENT days have brought more seemingly horrible news for the world's leading telecoms companies and their suppliers. In early November NTT DoCoMo, Japan's leading mobile operator and a pioneer of 3G technology, took a $2.15 billion write-off for its 15% stake in KPN, a Dutch phone group. Its move has since been followed by a steady procession of competitors, wiping billions from their balance sheets and causing them to report ghastly operating results. But the write-offs, though embarrassing admissions of over-exuberance in the acquisition sprees of recent years, are not entirely negative as indicators of the industry's health. With notable exceptions, the fact that telecoms firms can afford them suggests that the industry might be entering a more stable phase.

Vodafone is a case in point. The world's biggest mobile-phone group announced an £11.5 billion ($16.4 billion) charge for goodwill and exceptional items on November 13th, pushing its pre-tax results for the six months to September £8.5 billion into the red. The bulk of the write-offs related to Arcor, a fixed-line business that came as part of Vodafone's acquisition of Germany's Mannesmann last year.

Yet investors reacted with surprising calm. True, Vodafone accompanied the write-offs with relatively positive growth figures. Also, it pointedly did not reduce the value of its £13 billion bet on 3G—although Chris Gent, the group's chief executive, suggested that his hard-won British licence would be more viable if the government were to extend it beyond its current 20 years. Vodafone remains a high-risk venture, dependent on a big take-up of 3G by consumers. But its shares have risen by around 40% since early September, suggesting that investors are becoming more confident about its future.

Their reaction to this week's £3.5 billion write-off by Marconi, a British telecoms-equipment manufacturer, was different. Marconi has fallen from grace with alarming speed. On November 13th it reported a £5.1 billion six-month loss before tax as well as more than £4 billion of net debt. It is in desperate straits, having shed 10,000 jobs and endured months of management upheaval. Not only did it overpay for risky takeovers, but it has seen the bottom fall out of its main business.

Others are less threatened, but still have problems. Telecom Italia this week wrote down the value of its assets by $1.4 billion and gave warning of a possible net loss for this year. Analysts expect France Telecom and Deutsche Telekom to reprice some of their assets soon. Germany's Siemens reported a sharp fall in profits this week, which it blamed partly on large telecoms write-offs. Marconi's difficulties are also only an exaggerated form of the problems of all equipment makers, including France's Alcatel and America's Lucent. And Ericsson, the world's leading supplier of mobile-phone infrastructure, reported horrid third-quarter results at the end of October. This week Standard & Poor's, a credit-rating agency, lowered its ratings on Ericsson's long-term debt.

None of this sounds like ground for optimism. But there are a few positive signs. Some telecoms consulting firms are forecasting a pick-up in demand in the first half of next year. There has also been an improvement in market sentiment towards telecoms firms' financial assets. Since September, spreads on telecoms bonds have narrowed sharply, while telecoms shares have outperformed most other industries. Shares in France Telecom, for example, have risen by almost 50% since the start of October. They are, however, still only half their level a year ago.

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German takeovers

Keeping it cuddly

Nov 15th 2001 | FRANKFURT
From The Economist print edition

A revision to Germany's takeover law may help managers thwart hostile bids

LAST year's takeover of Mannesmann, one of Germany's grandest old names, by Vodafone has left its mark. Bankers still see the success of a hostile foreign bid as a welcome sign of change (and fat fees). Germany's managers and trade unionists, by contrast, see a threat that bare-fanged Anglo-Saxon capitalism will chew up the cuddlier local version.

The government prefers it cuddly. The initial draft of Germany's first takeover law, published in March, complied with a proposed European Union directive that would have tightly restricted managers' defences against hostile takeover bids. Thanks largely to Germany, however, the directive (12 years in the making) was sunk in the European Parliament in July. That freed the Germans to write their own rules. The proposed law, which is expected to be approved by parliament this month, has since been tweaked twice.

The first change was to let managers ask shareholders' meetings for permission to take defensive action—not only when a bid had been made, but also (just in case) even when one had not. Now the government, prodded again by business and the unions, thinks there is no need to put managers to all that trouble. The backing of the company's supervisory board will do.

Should shareholders worry about this? Maybe not: although supervisory boards consist of employees' representatives as well as their own, they are structured so that capital always has more votes than labour. But board members are often executives at other companies, and thus chummy with the managers they oversee. Chief executives frequently ascend to the supervisory board when they retire, and watch over their own protégés. Moreover, a supervisory board's duty is technically not to shareholders, but to the company. “German legal scholars have battled for decades” over what this means, says Hartmut Krause of Allen & Overy, a law firm. Some would even include the local authorities to which a firm pays taxes, as well as its workers, as having a legitimate say in crucial company matters.

Luckily for shareholders, says Mr Krause, existing company law restricts the use of poison pills: there are limits on new share issues, for example, and current shareholders have first-refusal rights that are hard to remove. Nevertheless, he adds, the latest change to the draft code matters. After a bid, it may be easier to get the supervisory board to agree to a sale of assets (which could make a target less attractive to a predator) than it would have been to win shareholders' approval.

In making the change, the government is swimming against the tide. For one thing, German banks have already become less cosy with company managers. Dresdner Bank swapped sides in a recent hostile battle, its long relationship with the target company and a seat on the supervisory board notwithstanding. For another, as banks and insurers unwind their own shareholdings, encouraged by recent tax reforms, they will want to get as much as they can. So what if a buyer is hostile?

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America's car industry

Changing drivers again

Nov 15th 2001 | DETROIT
From The Economist print edition

Another bout of reorganisation at Ford and General Motors

RESTLESS restructuring and job moves continue to characterise the world's two biggest car companies, General Motors (GM) and Ford Motor Company, as they struggle with overcapacity and weak sales. After the firing of its chief executive, Jacques Nasser, in late October, Ford has reshuffled its middle executive ranks and signalled plans to make more radical changes in its operations in Europe, where it is trying to claw back to break-even after losses of $1 billion last year.

Ford is closing five of its 11 plants in the region, including the car-assembly part of its historic Dagenham factory east of London. But David Thursfield, chairman of Ford of Europe, told analysts this week that he was determined to make deeper changes by cutting more capacity and sharing parts between different models. The aim is to cut capital spending by half to $800m, while still rolling out lots of new models and raising European market share to over 10%, from 8.8% today. So far, Ford of Europe has cut about $900m from its costs, and hopes to squeeze out another $300m in the next few years. Once Ford has rediscovered stable profits in Europe, Mr Thursfield is expected to be recalled to head office to play a bigger role in the company. Some even foresee the 56-year-old Englishman taking over one day from Bill Ford as chief executive.

Mr Thursfield's predecessor, Sir Nick Scheele, who was recently promoted to Ford's chief operating officer, wants to push through a similar restructuring in North America, and thus save $3 billion-5 billion a year. Four of the 21 North American factories could close, with the loss of more than 10,000 jobs; an announcement is expected in January.

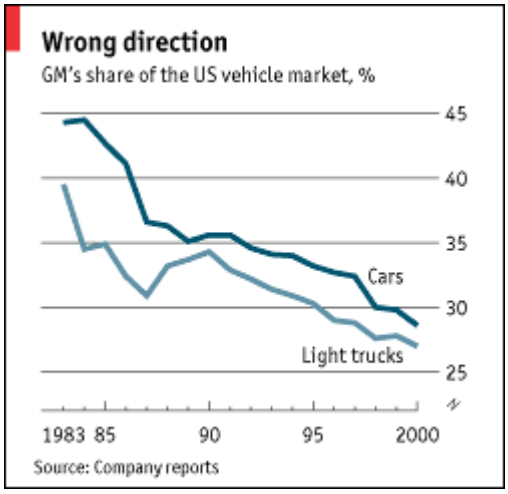
GM, meanwhile, has turned to a 69-year-old former Chrysler veteran, Bob Lutz, to run its North American business. This follows the surprise departure of Ron Zarrella, a consumer-marketing expert who has gone back, as chief executive, to the Bausch & Lomb eye-care company from which he came seven years ago to improve GM's branding skills.

Mr Lutz made his name with new products that revived Chrysler for a while in the early 1990s. He had been hired by GM in September to galvanise its stodgy product-development process. Rick Wagoner, the former accountant who now runs GM, has finally got the message that nothing matters more in the car industry than having enticing products.

Mr Lutz's newly appointed number two is Gary Cowger, who was recalled from Europe a few years ago, after only a few months in charge of GM's Opel subsidiary in Germany. His mission in Detroit was to improve labour relations and to run manufacturing. Mr Cowger was able to regain the trust of the United Auto Workers union after a disastrous strike. He also improved the company's product quality and efficiency.

The combination of Mr Lutz, a self-confessed “car guy”, and the manufacturing-minded Mr Cowger should allow GM to move away from its over-reliance on a quick fix through the introduction of slick consumer-goods marketing techniques. Mr Zarrella is given credit within GM for defining the brand image of the company's various divisions, and for eliminating pointless overlaps in products. But under him, product development was still largely a formulaic process, relying heavily on focus groups and rigid internal criteria, which every new product was required to meet.

Mr Lutz's approach is to throw away the rulebook in the hope of promoting more creativity. “We don't want anarchy,” he wrote in a recent internal memo. “But we do need more of a ‘who says?' attitude.” He wants Mr Wagoner to give him three years to show positive results and reverse the long-term decline in GM's American market share (see chart). Nothing short of a creative revolution will be enough.



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Oil

Cuts? What cuts?

Nov 15th 2001
From The Economist print edition

OPEC agrees to reduce production—but with a delay, and only conditionally

THREE years ago, the bosses of the OPEC cartel had their backs against the wall. An ill-judged increase in output, coinciding with the South-East Asian financial crash, prompted a collapse in oil prices to a mere $10 a barrel. In response, cartel kingpins from Venezuela and Saudi Arabia, with help from non-OPEC countries, orchestrated production cuts that have kept prices high for the past two years.

EPA

Russia keeps pumping

Now, thanks chiefly to the global economic downturn, oil prices are once again on the brink of collapse. OPEC ministers met in Vienna on November 14th in the hope of agreeing production cuts to shore up prices. In the event, the gathered worthies agreed to a cut of 1.5m barrels a day—equivalent to some 6% of their current output—but surprised some market watchers by delaying the cut until January. Odder still, they made their decision contingent on cuts by non-OPEC members. Their half-hearted action made the oil markets, which had pushed the price of crude below $20 a barrel ahead of the meeting, even softer after it.

What's so different about today's anaemic market compared with 1998? The answer lies in the witch's brew of geopolitical forces that could come together only in the murky world of oil: the war, OPEC's finances and Russian-American relations. The war in Afghanistan is a crucial factor. Saudi Arabia, the cartel's main player and an American ally, is aware that moving aggressively to raise prices during this crisis—especially without non-OPEC support—would anger the United States.

There is also reason to think that, this time round, the prospect of lower oil prices is less bad for the cartel than it was in 1998. Back then Saudi Arabia was on the verge of bankruptcy. Low prices still hurt, but the Saudis and their OPEC brethren are in better economic shape today.

Vahan Zanoyan of the Petroleum Finance Corporation, a consultancy, argues that the high oil prices of recent years have boosted financial reserves and reduced debt to sustainable levels in OPEC countries, so providing them with a financial cushion. He reckons that all OPEC countries can weather prices that average $23 or so for at least one year—but not much lower, or for much longer, unless they are willing to borrow heavily. For comparison, the average price in 2000 was around $27 a barrel.

The final, and probably determining, factor is the new-found chumminess between Russia and America. Russia has always been a big non-OPEC oil exporter, and it has also tended to be a “free rider”—that is, it typically nods agreement with the cartel, but fails to cut production very much. That has won it market

share and much-needed hard currency at the cartel's expense. Now, Russia has an added incentive not to kow-tow to OPEC's wishes for big production cuts: President Vladimir Putin's desire to forge a strategic partnership with America.

Of course, another price collapse to $10 would harm even Russia—but this is a game of high-stakes brinkmanship over market share. Financial cushion or not, things do not look likely to get any easier for OPEC in the next few months.

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Face value

The tortoise who triumphed

Nov 15th 2001
From The Economist print edition

Chuck Watson needs to sell Enron's worst businesses and learn from its best ones

Get article background

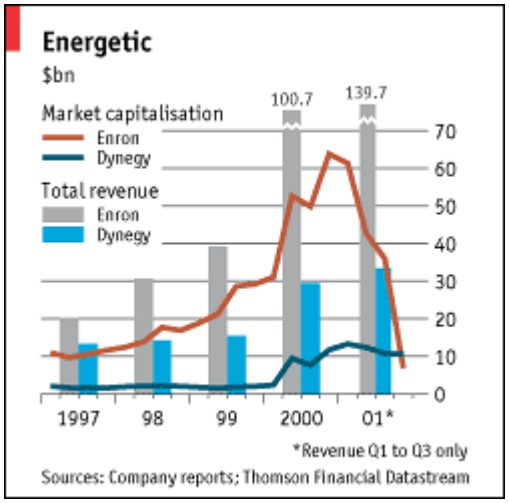
JIMMY CARTER must be one of only a few people who can truly appreciate the exhilaration that Chuck Watson feels today. Twenty-five years ago, Mr Carter famously arrived at the White House on foot—not riding in the fancy limousine that tradition dictated. This week it was Mr Watson, another cautious but clever southerner, who was catapulted against all expectations to the pinnacle of power in his chosen field—and once again the underdog got there by humble means.

Mr Watson is the boss of Dynegy, an energy-trading and marketing firm based in Houston. A decade and a half ago, at the dawn of energy deregulation in America, this former Conoco man joined with half a dozen friends to create a natural-gas firm that later became Dynegy. But almost ever since, his firm has been overshadowed by a far bigger rival based just down the road in Houston: the respected (but seldom loved) Enron.

Over the years, both companies have profited handsomely from the liberalisation of wholesale electricity and gas markets. However, a cursory glance at the huge gap in sales and (until recently) stockmarket valuations might suggest that Enron's visionary chairman, Kenneth Lay, was surging ahead in a turbocharged Ferrari, while Mr Watson chugged along some way behind in an old banger. Yet, in what must surely be one of the most dramatic reversals of fortune among arch-rivals in any industry anywhere, it is Dynegy that now plans to take over Enron—the equivalent of Pepsi swallowing Coca-Cola.

How did this happen? The short answer is that a financial crisis has engulfed Enron in recent weeks. At its centre is a web of murky limited partnerships and private-equity investments. With the firm's opaque finances pushing it to the brink of bankruptcy, Dynegy came riding to the rescue on November 9th, producing an all-share deal valued at around $10 billion. Crucially, it brings with it $2.5 billion in fresh money from Chevron Texaco, an oil major that owns nearly a third of Dynegy. That infusion, and the credibility that comes with the backing of Dynegy and its rich uncle, just might be enough to keep Enron from going bust.

Why did Mr Watson forge ahead where other investors (including Warren Buffett) feared to tread? “We were one of the few that could really understand what exactly they [Enron] were doing,” he explains. Because Dynegy is so familiar with Enron's business (it is a big user of Enron's pipelines, for example), Mr Watson claims that he was able to spot the opportunity of a lifetime in what everybody else sees as a financial black hole.



He reckons he can see clearly through the “noise” that frightens others away. Far from being flawed, he argues, the deregulation-inspired model that has driven Enron's (and Dynegy's) growth is still sound. In his view, Enron's problems are not related to its hugely successful businesses in gas and power. He has “looked under the hood” and found that Enron “might need a new paint job and some new tyres, but its engine is sound.”

His strategy for Enron (which will be fused completely into Dynegy) is to re-tune that engine, while junking much of the rest. He is convinced that Enron's mistake was to siphon cash from its core energy business into risky new ventures in areas in which it did not have expertise or even, in some cases, any hard assets—water, broadband, paper and pulp, weather derivatives and so on. These businesses may now be sold. Mr Watson says Dynegy has to assume that they are all of “no value”.

Pipe bomb

Several things could yet derail Mr Watson's ambitions. Antitrust regulators may yet block the deal: the combined firm will dominate the gas-trading market, for instance. More worryingly, losses at Enron may be bigger than is evident so far. To protect his shareholders, Mr Watson has written some provisions into the takeover pact that allow him to back out if liabilities turn out to be shockingly big. But these are not as strong as some would like—and in any case they would not help if some of Enron's devious financing structures exploded after the deal is consummated.

Then there is strategy. Salvaging Enron's worthwhile bits and running them prudently is fine as far as it goes. However, this is unlikely to deliver the sort of rapid growth that has been promised to shareholders to justify the deal. Not all analysts are persuaded by Dynegy's claim that it could boost profits by 15-20% a year over the next three years.

Dynegy may also struggle to keep Enron's energy business intact. The vultures are already circling. The Intercontinental Exchange, a commodities exchange that was a big rival to Enron's industry-leading Internet trading platform, boasted that this week was its best ever thanks to “the uncertainty that has been exhibited in several key energy-trading venues.” And many customers who have shied away from Enron in recent weeks are being actively courted by rivals, who will accelerate their efforts to grab market share during the months needed to finalise the takeover.

This points to the trickiest challenge facing Mr Watson: how to stop Enron's army of talented but cocksure traders from defecting. He is aware of the scale of the task. After all, Dynegy's corporate mantra is “We Believe in People”. Even so, hundreds of Enron résumés are already doing the rounds.

That is why Mr Watson—a self-professed “conservative old fart”—will need something more than the prudence and perseverance that have served him so well until now, if he is to succeed in creating a Super-Dynegy rather than an Enron-Lite. He must infuse the new company with the creativity, intellectual audacity and sheer imagination that represented Enron at its best—while steering clear of those financial shenanigans that ultimately sank it.

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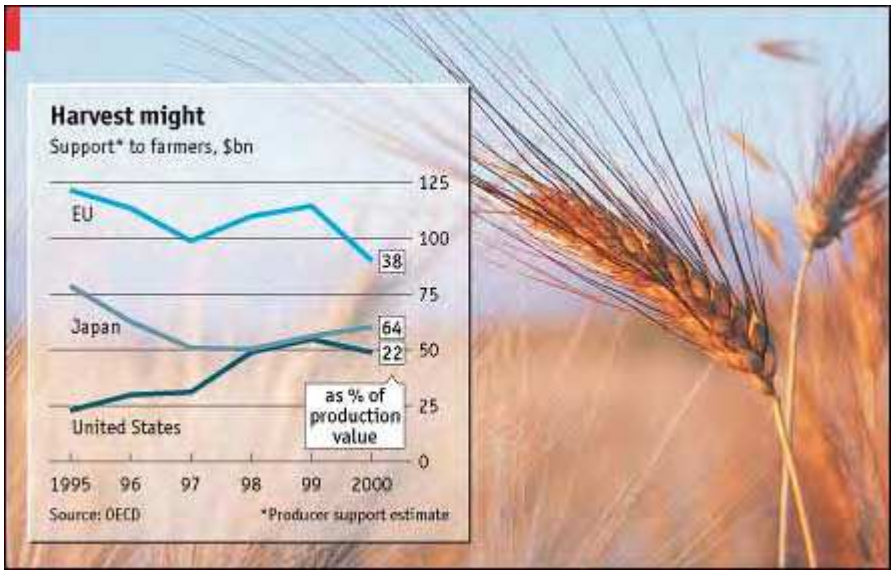
The Doha round

Seeds sown for future growth

Nov 15th 2001 | DOHA
From The Economist print edition



Despite their reservations, the launch of a new multilateral trade round this week is a boost for poor countries

Get article background

HALFWAY through this week's tortured negotiations to launch a new round of trade talks, Robert Zoellick, America's senior trade negotiator, bumped into two officials from the Vatican in the lift. Never one to miss an opportunity, he quickly suggested “a little divine intervention” to get the negotiations over. Fortunately, the heavens eventually listened. In the evening of November 14th, more than 18 hours after their original deadline and after numerous last-minute panics triggered by the intransigent Indians, the World Trade Organisation's 142 members announced that they had agreed to launch a new round of trade talks.

They promised to liberalise trade further, even in agriculture, and to make improvements to today's rulebook in areas such as anti-dumping, as well as to develop rules in several new areas. Mr Zoellick was jubilant. “We have sent a powerful signal to the world,” he said, adding that a new trade round would deliver “growth, development and prosperity”.

The European Union, long the sole champion of a “comprehensive” trade round, was also happy. Although forced to accept a stronger commitment to ending trade-distorting farm-export subsidies than its members, notably France, would have liked, the EU pushed environmental issues further on to the agenda than it had expected. And it won a commitment to future negotiations on rules about foreign investment and competition.

Poor countries were much less excited. India tried long and hard to block a deal, worried about its incursion into new areas and determined to press for more concessions on textiles. Although less persistent than the Indians, Africans too feared the prospect of expanding the WTO's remit further. Their worries are understandable. In the previous Uruguay round, poor countries got few trade benefits and signed up to agreements in areas such as intellectual property that hurt rather than helped them. But, on the face of it, the Doha deal is still a big win for poor countries.

First, they scored a coup with a declaration that intellectual-property rules should not stop poor countries

gaining access to cheap medicines. Although the declaration is political and not legally binding, it sends a strong message about how poor countries can deal with epidemics such as AIDS. In a sign of their increasing clout, poor countries won a clear victory over the drug makers. As one activist admitted, “Two years ago you would never have got anything like this through the WTO.”

Help aimed specifically at the poorest countries goes well beyond patent rules. They are to have longer time-frames for implementing agreements; lots of assistance in “capacity building” (in other words, cash); and numerous special trade preferences. Rich countries are desperate for this trade round to be seen as a “development round”, and the agenda is full of commitments to help the poor.

Even more important, the basic barrier-bashing agenda should also disproportionately help poor countries. About 70% of the exports of the poorest countries are in farm products and labour-intensive manufactured goods, such as textiles. The WTO's members have promised to push for “substantial improvements” in market access for farm products, including the “phasing out” of export subsidies. The habit of subsidising the export of surplus food, a favourite of the French, is pernicious for poor countries, since it undercuts local markets. As one African said at Doha, issues that “may lose elections in France are life and death in Tanzania.”

Long-term prospects

Although poor countries did not get the immediate concessions on textiles that they had been demanding, the Doha round offers the prospect of big long-term gains. The commitment to reduce barriers on industrial goods, particularly “peak tariffs”—the top rates that countries use to protect their most sensitive industries—should imply more access for poor countries' textiles, since the quota-driven system that now governs trade in textiles is to be phased out by 2005.

Developing countries will also benefit from negotiations to clarify and improve the rules on anti-dumping. Within the WTO framework, countries can protect themselves against goods that are sold below cost. But this right is often misused as a tool of naked protection, particularly by America. Unfortunately, anti-dumping provisions are extremely popular among America's lawmakers, and Mr Zoellick's courageous decision to put them on the table will not play well at home.

Just before he arrived in Doha, the House of Representatives passed a resolution urging him not to mess with America's trade defences. Mr Zoellick can claim, correctly, that the language he has agreed at Doha is consistent with this resolution, but his concession will infuriate politicians back home. Sander Levin, the only American congressman in Doha, was blunt. “Renegotiating anti-dumping is not a viable approach for the United States.”

The fight for fast-track negotiating authority—which the American administration needs to win from Congress to finish, even if not to start, new trade talks—has been made much harder. Many trade insiders now reckon there is no hope of success until after America's 2002 mid-term elections, particularly since the Doha agenda offers nothing on labour issues, another key priority for many Democrats.

For developing countries, the lack of any commitments in the area of trade and labour is another victory. The failure to launch trade negotiations at Seattle two years ago had much to do with poor countries' fears about the rich world's desire to use labour standards as a protectionist tool. That fear should now be put to rest (at least for a while).

The environment, in contrast, is on the agenda. There are (narrowly defined) commitments to negotiate, particularly on the question of the relationship between the WTO and international environmental agreements. Taken literally, the agenda poses no risk that rich countries could misuse environmental concerns for protectionist ends (which is the poor countries' greatest concern). The danger is that this could become the thin end of a wedge.

Poor countries, however, are not powerless to stop that happening. The lesson of Seattle's failure and Doha's success is that they have a real strength in the WTO because of the organisation's requirement for consensus. By working together, poor countries can force rich ones to make concessions. As the multilateral system takes on ever more issues, this structure may become unworkable. But for now, contrary to much conventional wisdom, the WTO is the poor countries' friend.

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World Trade Organisation

Safety first

Nov 15th 2001 | DOHA
From The Economist print edition

High security, low protest

AP

Pascal Lamy climbs on board

WHEN the world's trade ministers last met—in Seattle—the backdrop was massive street protests. At this week's meeting in Doha, tight security dominated. In the wake of September 11th, the Gulf state of Qatar, only 1,000 miles from Afghanistan, took no chances. The conference site was a fortress, ringed by soldiers with heavy artillery (although, according to some reports, without ammunition). Whole sections of the city were out of bounds to all except security guards and delegates, who were shuttled around in buses with armed Qatari policemen on board. Every hotel had X-ray machines and metal detectors at its entrance, manned by guards in keffiyehs.

The Americans went further. Robert Zoellick, America's trade representative, was whisked at speed around the conference centre surrounded by marines disguised in civilian clothes but given away by their short-cut hair, barely concealed weapons and predilection for shouting orders. Before every American press briefing sniffer dogs checked for bombs, and journalists were searched one by one. Some Americans took security even more seriously: one journalist stuck to the instant meals that he brought with him from Washington, worried that a disgruntled hotel worker might poison his room-service food.

With security high, the few anti-globalisation protesters who were allowed into Qatar had no chance of repeating Seattle. But they were still creative. Small groups used surprise tactics, springing up outside meeting rooms to chant “Zoellick go home”, or plastering the conference walls with enigmatic messages, such as “Do you know what the green man is up to?”

But most non-governmental organisations were too busy lobbying to protest. Greenpeace, the environmental titan, persuaded Pascal Lamy, Europe's top trade man, to visit its boat, *Rainbow Warrior*, for a photo opportunity. And José Bové, the French farmer famous for driving his tractor into McDonald's, spent much of his time hanging around the press room, pipe in hand.

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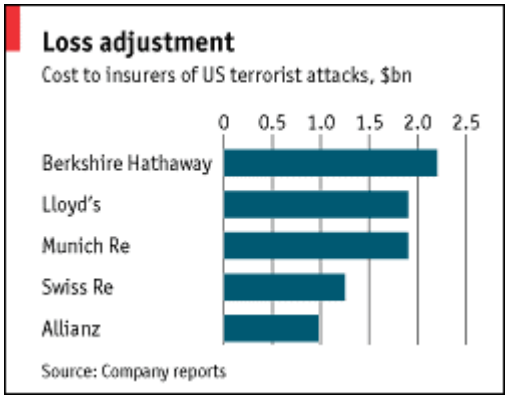
Insurance

The risk that nobody wants

Nov 15th 2001
From The Economist print edition

American lawmakers are at odds over terrorist insurance



AFTER the shock of the attacks on September 11th, American insurance bosses said that, if they were to renew cover for terrorist risk, either they would have to charge exorbitant rates or they would need government support. Under pressure from the industry's persistent lobby, the House of Representatives and the Senate came up with widely diverging draft proposals to make the government the insurer of last resort. As *The Economist* went to press, it seemed unlikely that the two chambers would reach a compromise agreement on a bill before the Thanksgiving holiday on November 22nd.

A solution for covering terrorist risk needs to be found by the end of the year at the latest, since that is when about 70% of insurance policies come up for renewal. Terrorist cover is needed for commercial property, workers' compensation (a policy that covers medical expenses and about two-thirds of workers' weekly wages for as long as they are unable to work), business interruption and general liability. But it has become the risk that nobody wants.

It is trickier than other types of risk that insurers have refused to underwrite in the past—such as floods, asbestos or medical malpractice—because it involves such a broad spectrum of policies. It is also much scarier. In a doom-laden letter to shareholders last week, Warren Buffett, the head of Berkshire Hathaway, an insurance-heavy conglomerate that faces claims of $2.3 billion related to the September attacks, discussed the possibility of a loss of $1 trillion (or even greater) in the event of a major terrorist outrage. Mr Buffett, like many of his peers, has concluded that the private market can no longer shoulder large-scale terrorist risk.

The Bush administration and Congress have agreed that the federal government should have a role, but they are at odds over what it should be. They have rejected the British model, which would have made the government permanently the insurer of last resort. After a series of bombs by the Irish Republican Army in mainland Britain, “Pool Re”, a government-backed, mutually-owned company, was set up in 1993. Insurers collect premiums for terrorism insurance, and the British government steps in when claims exceed the pool's premiums plus reserves.

All the proposals under discussion in Washington are temporary measures. Although the House is in the hands of Republicans (who favour insurance firms that give handsomely to their party), the Democrat-controlled Senate's proposal is the more generous. It suggests that the insurance industry meet the first $10 billion of a terrorist loss and that the government should pick up 90% of any larger losses, up to $100 billion in the first year. The programme would last two years, with the option of a one-year extension. The House's draft bill calls for a one-year, risk-sharing loan programme that could be extended for two more years. Every insurance company would pay the first $100m of any terrorist claim, with the government providing funds for 90% of claims that come above that level.

Senators and congressmen remain at loggerheads, though, and time is running out. The House proposal has at least passed the first hurdle, approval by its financial-services committee, but the Senate's is not even a draft bill yet. “With each day that federal legislation is not passed, pressure mounts on commercial insurers to withdraw from lines of business that unduly expose their capital to these potentially large and unpredictable risks,” says Steve Dreyer of Standard & Poor's in New York.

Should a major terrorist event occur, however, the lawmakers' quibbling over the bill could become academic. In such a case, the federal government would surely become the insurer of last resort by default. It could not allow America's insurance companies to go bust when they are badly needed to rebuild confidence.

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The Financial Services Authority

Too big for its suits?

Nov 15th 2001
From The Economist print edition

Britain's super-regulator opens fully for business on December 1st

THIS week, the Financial Services Authority (FSA) bared its teeth at London's financial PR firms. Soon, it warned them, anybody putting out misleading financial information could face unlimited fines, just like other market participants. That came as a shock to the lounge lizards of the financial world, but it demonstrates the broad scope of the FSA's authority. The already leviathan institution, four years in the making, combines nine former regulatory and self-regulatory bodies, including those for banking, insurance, securities markets and investment management, under one roof. Its powers, which it assumes fully on December 1st, include the right to name, shame and fine financial executives for wrongdoing at their firms.

The FSA's success will depend crucially on the quality of its staff. And they have been mired in controversy lately. Sir Howard Davies, the usually ebullient FSA chairman, confessed last month on radio that he and other top staff had forfeited part of their annual bonuses this year because of the mess surrounding Equitable Life, a British life insurer. Already in trouble, the firm was allowed by the FSA to write new business although it had too few resources to meet guaranteed future payments. Before a Treasury committee, Sir Howard owned up to FSA management failures.

Sympathisers say Sir Howard has an impossible task. His job is not to prevent every financial failure but to safeguard the stability of the system as a whole: awkwardly, the public is more demanding than that. The FSA is not the first super-regulator—Sweden and Ireland got there before it—but it is certainly the biggest. It will be closely scrutinised in America, which has four kinds of bank regulator, state-by-state insurance supervision, and numerous market watchdogs. The FSA is also a model for super-regulators being set up in Germany and Austria.

The task of framing policy, writing new rules and building a staff of 2,000 into a team has been huge. Most market practitioners praise the intelligence and good sense of top FSA staff. But they worry about the beast that has been created beneath. They fear that the qualities at the top will not percolate down now that the rule-making phase is over.

The FSA has made much of its principle of “risk-based” rather than “rule-based” supervision. This means using a light touch, mutually agreeing what risks are being run and trusting top management, rather than prescribing hard ratios and requiring boxes to be ticked. But that needs skilled staff of the type that used to fill even the lowest ranks of the Bank of England, famed for supervising with a nod and a wink.

As the rulebooks have been written, the hard-numbers culture has come to prevail. American banks supervised in London have brought with them their own legalistic attitude, which is spreading. Nowadays, visitors to the FSA arrive with their lawyers. City folk expect the FSA to pounce publicly on misdemeanours in future rather than quietly to demand corrective action. “I think naming and shaming will be the order of the day,” says the legal counsel at a London-based foreign bank. The FSA, says a senior executive at a British bank, is “under tremendous political pressure to bring in heads on a plate.”

Bank of England survivors at the FSA—and that includes two of the three managing directors below Sir Howard and a swathe of senior staff—have some nostalgia for the way that things were handled there. “Risk-based” treatment by the FSA may prevail for the biggest firms and for smaller firms that are well run, but the guiding principle of the Bank—that you can do things unless they are expressly forbidden—may slowly be displaced by its opposite, more common under the codes of continental Europe: everything is forbidden unless the law says it can be done.

Without the lighter touch, going by the book will demand more staff than the FSA can muster. Bearing

this in mind, it is studying ways to “harness market forces” in the service of financial supervision. It is looking for inspiration anywhere, from *Car* magazine to the way that the oil industry polices itself, in its search for ways of promoting greater interest in transparency. But the FSA needs to get closer to the market too. It lacks what the Bank of England had, an early-warning system in the shape of its own market operations.

The consumer always assumes that the supervisor knows more than the market—so the supervisor shares the blame when something goes wrong. The only defence against that is consumer education. Although the FSA has an ambitious programme of financial education in schools, factories and even the armed forces, there is a lost generation, now in its 30s and 40s, who may remain outside its influence.

The biggest challenge for the organisation is to marry the financial-services regime being developed in Britain with those in other European countries. All European regulators must adapt their regimes to European financial directives as they emerge, painfully and usually years behind schedule. The European Commission is trying to cut corners to catch up, and Sir Howard was furious when the commission in July issued draft rules for investment prospectuses without the expected consultation period. He was doubly furious, say insiders, because the proposed rules—judged nonsensical by many market practitioners—were the brainchild of Gordon Brown, the chancellor of the exchequer.

Colleagues maintain that Sir Howard has steered the FSA cleverly through its infancy. But, as was discovered in the last big shake-up of financial regulation in 1986, applying the rulebook may take different skills from writing it. It will rely more on ground troops than on officers. One ray of hope: although its salaries are not high by private-sector standards, the FSA may be able to hire some good new recruits now that financial firms are firing.

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Enron

See you in court

Nov 15th 2001 | NEW YORK
From The Economist print edition

The company's trials have just begun

LAWYERS are swarming all over Enron's old financial statements and press releases in the hope of reaping huge fees from securities litigation. More than 20 class-action lawsuits have been filed in recent weeks, and new ones are popping up every day. A formal process has been started to consolidate litigation in Houston, where the troubled energy company is based, with all lawyers interested in the case required to stake their claims by December 21st.

The broadest accusations will be of fraud and material misstatement, legal ways of saying that the company's financial statements were garbage. This week, Enron's founder and chairman, Kenneth Lay, decided to forgo a severance package worth over $60m while admitting that the company's problems "had been exacerbated by the extensive use of debt capital, both on and off the balance sheet". America's Financial Accounting Standards Board (FASB) is looking again at off-balance-sheet financing, having fretted about it on and off for a decade.

There will also be charges of insider trading, because even as Enron was issuing securities amid glowing profits reports, top executives were dumping over $1 billion of Enron shares to "unsuspecting investors", a group that includes anybody who, however briefly, has held one of the company's 750m shares in the past two years. "The number of class members will be huge," says Maurice Pesso, a lawyer at a New York firm that has filed a claim.

There are, however, limits to the company's liability. It has already restated its results going back five years, but federal law restricts litigation to the past three. Moreover, Enron will not take the rap alone. Its auditor, Arthur Andersen (now plain Andersen), is also named as a defendant in at least one of the complaints already filed. The litigation comes after a rough decade for Andersen. It has had to pay hundreds of millions of dollars in settlements after sloppy audits on such companies as Waste Management, Sunbeam and Discovery Zone.

Because Enron evolved from an energy company into a financial firm, it became much like an unregulated bank. The lack of supervision meant that the role of the company's auditor was crucial. Andersen was certainly paid as if it was. In 2000, it collected $25m for auditing Enron's books and another $27m for consulting services. Now how do you account for that?

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Deflation

The new bogey

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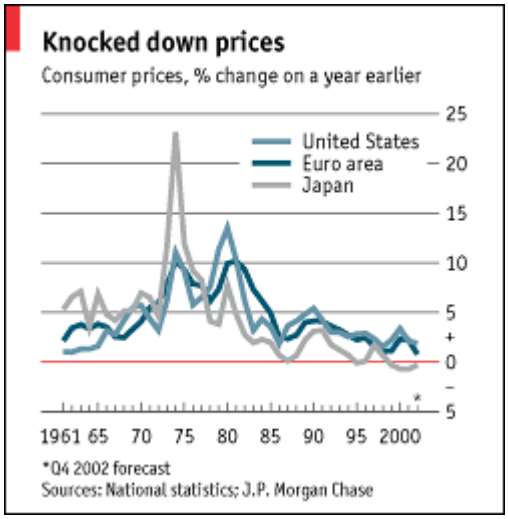
From The Economist print edition

Falling inflation is a worldwide worry

MANY nasty things start with a D: disaster, disease, debt and depression, for a start. But economists' current favourite "D nasty" is deflation. For most of the past three decades, central banks have fought inflation. Now some face the even greater evil of deflation, or falling prices.



Figures out on November 16th are widely expected to show that American consumer prices fell in October. Over the past six months, they have risen at an annual rate of around 1%. Producer prices plunged by 1.6% in October, the biggest monthly fall since records began in the 1940s. This was only partly due to the weak price of oil; prices of other goods are falling too. The latest (widely watched) poll by the University of Michigan found that consumers expected inflation of only 0.4% over the year ahead, the lowest expectation since the 1950s.

Over the past year, producer prices have fallen in all the other big economies. Japanese consumer prices have been falling on and off since 1995, and much of the rest of East Asia—notably China and Hong Kong—has been experiencing mild deflation. Hong Kong's consumer prices have been falling continuously for three years.

The word deflation is often misused. Most developed countries other than Japan are so far experiencing disinflation (a fall in the rate of inflation), not outright deflation (a fall in the level of prices). Yet inflation is likely to fall further from already low levels over the next year as the recession bites—raising the chance of deflation. Even when economies start to pick up, inflation usually continues to fall so long as there is ample spare capacity. By one estimate, the global output gap (the difference between actual and potential GDP if the economy were running at full capacity) is now bigger than at any time since the 1930s. J.P. Morgan Chase forecasts that average inflation in developed economies will fall below 1% next year, the lowest for around half a century.

There are two forms of deflation. The friendly sort is when new technology and rapid productivity growth push down prices, as in the computer and telecoms industries. This boosts real incomes and spending power. The second (dangerous) variety is caused by a slump in demand and huge excess capacity, which can trigger a downward spiral of falling prices, shrinking demand and financial distress. The friendly type has been evident for several years, but now there are signs that the malign sort may be spreading.

Such deflation can harm economies in four ways. First, it swells the real burden of debt, causing bankruptcies and bank failures. Second, expectations that prices will be lower tomorrow may encourage households to postpone their spending. Weaker demand may then push prices even lower. Third, workers are often reluctant to accept a pay cut in nominal terms, so that when prices are falling the real wage bill goes up. The only way to cut costs is to lay off more workers, which may deepen a recession. Last, but by no means least, interest rates cannot go below zero, so deflation makes real interest rates painfully high—as Japan has discovered.

Much has been made of the fact that American interest rates, at 2%, are at their lowest for 40 years. But if deflated by inflationary expectations, real rates are still significantly positive. In previous recessions, real rates have usually turned negative.

A 1930s style deflation, when American prices fell by 25% in all, remains highly unlikely. That was due to serious policy errors that are unlikely to be repeated—except, perhaps, by the Bank of Japan. But if this global recession turns out to be deeper than expected, it will reopen the question of whether central banks have pushed inflation too low in recent years.

Everybody agrees that high inflation damages economic growth, but there is a dispute about the optimal rate of inflation. The European Central Bank has an inflation target of 0-2% and the Bank of England's is 2.5%—probably the same as the Fed's unpublished goal. But some say that economies work better with a bit more inflation, say 3-4%. Their argument is that during a severe downturn such inflation makes it easier to cut real wages and to push real interest rates below zero, thereby helping recovery.

Most of the world's major economies now have lower inflation than at the start of any previous recession in the past 40 years. The question of whether low inflation can make a recession worse may be about to be answered.

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Climate change

Gasometry

Nov 15th 2001
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The fight against global warming continues despite America's rejection of Kyoto

AP

Some are still fuming

“THE Kyoto Protocol is saved,” proclaimed Olivier DeLeuze, head of the European Union's delegation to the latest round of negotiations on the UN treaty to fight climate change. He made this triumphal claim on November 10th, at the end of two weeks of bitter wrangling in Marrakech, Morocco, that almost resulted in the collapse of the ill-starred treaty. Does this mean that business should start taking Kyoto seriously?

The answer is only maybe. The optimistic case rests on the fact that this latest deal brings the Kyoto pact one step closer to reality. Once enough countries ratify it, the industrialised world will be legally bound to reduce emissions of greenhouse gases (GHG) by about 5% below their 1990 level over the next decade.

The most encouraging news for Kyoto fans came from the shift in Japan's position on the pact. When George Bush declared earlier this year that he wanted nothing to do with the treaty, the EU's leaders flew into fits of rage and disbelief. The Japanese, however, were non-committal. The prime minister, Junichiro Koizumi, was concerned about upsetting his strongest ally, and his country's businessmen were worried that they would lose competitive edge to American rivals not burdened with Kyoto's costs.

The treaty needed the support of countries accounting for 55% of greenhouse-gas emissions to come into force; that gave the Japanese delegation a crucial swing vote. Along with Australia, Russia and Canada, Japan accordingly pushed the EU hard to reduce the economic impact of the treaty, in several ways. Their most important demand related to whether countries that fail to meet their Kyoto targets face penalties that are legally binding or merely “political”. The EU, faced with a possible collapse of the treaty, yielded.

Cheerleaders

Is the resulting compromise now toothless? No, says Jennifer Morgan of the World Wildlife Fund, a green group. She insists that this latest deal “sends a strong signal to the shrinking ranks of doubters in politics and business” that they should start to get serious about global warming. She may be right: two Kyoto-inspired initiatives have just been announced by business lobbies.

The first is the GHG Protocol, which was developed by the World Business Council on Sustainable Development—which counts among its members such multinational giants as Ford, DuPont and ABB—and the World Resources Institute, an environmental think-tank. It establishes an international standard that will make it easier for businesses everywhere to report their emissions of GHG, measured according to the same criteria.

The second business-led scheme, the Emissions Market Development Group—consisting of Crédit Lyonnais, Swiss Re and Natsource (an emissions broker)—aims to kick-start the nascent market for emissions trading. Frank Joshua of Andersen, an audit firm that produced the plan for EMDG, says the goal is to create an entirely new “commodity for international trading of greenhouse-gas reductions”.

Margaret Beckett, Britain's environment secretary and a force behind the Marrakech compromise, thinks

the deal could even spur efforts in America to take domestic action on climate change. But this may be wishful thinking. Asked whether the deal would influence his country's intransigent position at all, one senior American negotiator in Marrakech reportedly snapped: “Other countries have chosen their path, and our answer is still ‘No'.”

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Economics focus

Curse of the ethical executive

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Why “corporate social responsibility” is not a welcome fashion

IT IS more than 200 years since Adam Smith observed that people enjoy their daily bread thanks not to the benevolence of their baker, but to his selfish pursuit of profit. In that observation and its implications lies the case for market capitalism. In their economic lives, people behave as though they had no regard for the public good. Yet the outcome, through the operation of the invisible hand, serves the public good better than any social planner could ever do.

Nowadays the triumph of the market is taken for granted. But this victory is far from complete—because Smith's insight is, even now, not widely believed. Social progress is still thought to issue not from profit-seeking behaviour, nor even from enlightened government policy (current orthodoxy, after all, frowns on too much of that), but from the benevolence of the baker. Companies are enjoined to do more than serve their customers and make money. Instead they must be “good corporate citizens”; they must attend to the needs of their “stakeholders”; they must contribute to “sustainable development”; they must strive to “raise standards” at home and abroad. Increasingly, companies respond to these admonitions, or affect to, with zeal.

So firmly has this view taken root that only a brave man would be willing to go on record against it. In a new booklet for the Institute of Economic Affairs*, David Henderson, formerly the chief economist at the OECD, has dared to risk the wrath of right-thinking people everywhere. He is not content to argue, as timid waverers might, that the new commitment to corporate social responsibility is a sham, behind which the search for profit carries on as before, leaving capitalism in good shape after all. Still less is he willing to argue that paying lip-service to corporate social responsibility may actually do some social good—albeit less than its more enthusiastic supporters would advocate. Mr Henderson claims, rather, that the fad for corporate social responsibility is doing real harm. The appropriate response, in his view, is not to laugh at it or tolerate it, but to recognise it for the danger it is and oppose it.

Part of the harm that the notion causes, according to Mr Henderson, is intellectual. Advocates of corporate social responsibility—meaning the explicit adoption by companies of economic, environmental and social goals, as opposed merely to making profits for the company's owners—start with a basic failure to understand why capitalism works. That provides a foundation on which many other towering misconceptions can be constructed. Thus, belief in corporate social responsibility goes hand in hand with what Mr Henderson calls “global salvationism”—an apocalyptic pessimism about the planet's environmental prospects and the outlook for global poverty. Capitalism is in crisis. The remedy is not government: that's socialism, which is discredited, and governments are powerless these days anyway, aren't they? The remedy is morality in the boardroom.

All this deflects attention from some important, if inconvenient, facts: the planet is not approaching environmental catastrophe; the proportion of people living in poverty has fallen faster thanks to capitalist industrialisation than ever before in history; and governments still have as much power to collect taxes and conduct social policy as they ever did. Advocates of corporate social responsibility reply that they have no choice but to respond to society's more demanding expectations of them. That might be a fair point, were it not for the fact that their capitulation to anti-profit ideology, their pandering to anti-capitalists and their preference for “enlightened co-operation” over ruthless competition, is powerfully helping to shape those very expectations.

But the problem, Mr Henderson emphasises, is not merely that the fad for corporate social responsibility is intellectually wrong, or that it poisons opinion against market capitalism. It also promotes policies that are directly welfare-reducing. Applying principles of corporate social responsibility raises costs and prices.

Whether it also reduces profits depends on market conditions. Adopting new systems of social and environmental accounting imposes further burdens. If companies succeed in persuading or forcing their partners and suppliers to do the same, costs rise still further. “Good corporate citizenship” does not come cheap—and the cost is borne by society at large, not necessarily by the managers or owners of the firms in question.

The marriage of corporate social responsibility and global salvationism is especially pernicious. It favours additional regulation (which is no less harmful for coming, in the first instance, at firms', rather than governments', behest). When firms set themselves up as “good global citizens”, the next step is to demand common international standards on labour practices, pollution, and what have you. In a profoundly non-uniform world, uniform standards are a bad idea, especially for the poorest countries, which may be unable to support them economically. In seeking a level regulatory playing-field based on their ethical insights, rich-country “good global citizens” limit competition, worsening the performance of the global economy as a whole and putting developing countries at a particular disadvantage.

It is no advance for democracy when public policy is “privatised”, and corporate boards take it upon themselves to weigh competing social, economic and environmental goals. That is a job for governments, which remain competent to do it if they choose. And when it comes to business ethics, it is worth remembering that managers do not, as a rule, own the companies they are directing. Their first duty is to serve the people who are paying their salaries, so long as they stay within the law and the canons of ordinary decency. In the political arena, the chief executive of the biggest multinational has just one vote—and that is how it should be.

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* “Misguided Virtue: False Notions of Corporate Social Responsibility”, by David Henderson. Hobart paper 142. Institute of Economic Affairs, London. £12.50.

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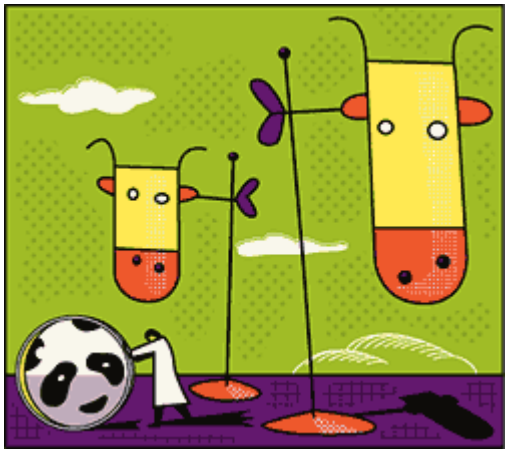
Endangered species

Mating rituals

Nov 15th 2001 | AUCKLAND AND MELBOURNE
From The Economist print edition

Fertility treatments are being used to preserve rare animals

Get article background



THE kakapo is a strange bird. This large flightless parrot, found on a handful of islands off New Zealand, breeds only every three or four years. When it does, it puts on quite a show. Male birds build elaborate trenches and tracks in special display grounds, and send out their booming calls thousands of times a night for months, until females gather round. The males then strut their stuff and, if all goes well, mating occurs. This song-and-dance routine may get a high-tech twist if John Cockrem, a conservation endocrinologist at Massey University in Palmerston North, New Zealand, has his way.

The kakapo is a highly endangered species: there are only 62 left in the world. Most of the females in New Zealand are at least 30 years old, and some have not bred in a decade. Dr Cockrem wants to use sex hormones to boost the fertility of these middle-aged birds. He has been experimenting on common-or-garden quail, and has found that injecting a hormone known as “pregnant-mare serum gonadotropin” can boost their egg production. He would like to try a similar technique on the kakapo, and hopes to sequence the gene for the birds' own version of the hormone, so that it can be synthesised. But how and when to deliver hormones to birds deep in the forest is still uncertain, as is the co-operation of New Zealand's Maoris, who have stewardship of the kakapo.

If this fertility treatment sounds familiar, it is because similar techniques are tried every year by thousands of infertile human couples. Artificial reproductive technology (ART)—such as artificial insemination and, more recently, cloning—got its start in domestic animal husbandry before translating into clinical medicine. Increasingly, though, techniques that have become routine for humans, such as *in vitro* fertilisation and surrogate motherhood, are being tried in endangered species. But, says David Wildt, head of reproductive sciences at the Smithsonian's National Zoological Park, saving rare species involves more than just breeding them in large numbers. High-tech fixes are no substitute for habitat management, population biology, behavioural studies and other aspects of wildlife conservation.

Yet conservation biologists have used ART to propagate several rare species, especially in captivity. Artificial insemination, for example, has worked well in such high-profile “charismatic” animals as the giant panda and African and Asian elephants. Less attractive perhaps, but even more of a success story, is the black-footed ferret. It roamed America's western plains until the government decided to purge the prairie dog, its main prey—at which point ferret numbers began to plummet. The last 18 of them were put into a conservation centre in Wyoming for safe-keeping in the mid-1980s until researchers could work out how to boost their numbers. Much of the research was done on the more plentiful domestic ferret. Biologists from the Smithsonian worked out the reproductive cycles of both sexes and tackled tricky technical issues, such as how to collect semen. Artificial insemination then produced offspring in 70% of cases. Along with more traditional breeding methods, this has helped to boost black-footed ferret numbers to 3,000.

Animal attraction

As William Holt of the Institute of Zoology in London points out, the key to ART is a greater understanding of the basic reproductive biology of rare animals. Of more than 40,000 vertebrate species

on the planet, the reproductive biology of fewer than 100 (among them humans and most domestic livestock) are known in any detail. But new technologies are helping biologists to come to grips with these basic facts of life. For example, one way to track the reproductive cycle in a female is to follow the waxing and waning of sex hormones. But taking blood samples from wild species is hard to do; non-invasive ways of measuring such hormone levels are far better. So Dr Wildt's group is, for example, using a test-tube assay to measure hormone patterns in the faeces of endangered clouded leopards, and correlating these to behaviour under stress with a view to improving reproductive efficiency.

One animal whose sex life has come in for close scrutiny is the wombat. Monique Paris of Monash University in Melbourne, Australia, has been working with the common wombat, trying to understand its reproductive cycles as a prelude to tackling the rarer northern hairy-nosed variety, of which only 100 or so survive. She and her colleagues have worked out how to “superovulate” the females—giving them large doses of hormones to induce the release of eggs. She plans to use the common wombat as a surrogate mother, to avoid stressing the northern wombat. Such embryo transfer between species has already proved successful for rare Mongolian horses and Indian cats. But ultimately, she would like to avoid the awkward process of collecting egg cells from the northern wombat, and clone the animal instead.

Reproductive cloning, which created Dolly the sheep in 1997, involves transferring the nucleus of an adult cell into an egg, giving the resulting embryo a full set of genes without the normal sperm-meets-egg fertilisation step. In the case of the northern wombat, the nucleus could be taken from an easily accessible skin cell, and the egg could be provided by a common wombat. But cloning is fraught with difficulty: fewer than 5% of eggs from common laboratory species result in live births. Clones die in the test tube, in the womb and after birth for reasons that researchers still scarcely understand.

Some rare breeds have been successfully cloned. One example is Enderby Island cattle, rare New Zealand cows rescued from a remote island almost a decade ago, which have been cloned using eggs from more common relatives. Less successful was the cloning of the gaur, a species of ox found in south Asia, by researchers at Advanced Cell Technology, a biotech company in Worcester, Massachusetts: the clone died of infection days after birth.

Many biologists see cloning as a last resort since, unlike sex, it does not increase the genetic diversity of a population. But with a tenth of all bird species and a fifth of mammals on the verge of extinction, cloning is better than nothing. Institutions around the world are freezing tissues from endangered species just in case. Ian Gunn at the Animal Gene Storage Resource Centre of Australia, also in Melbourne, is collecting testes, ovaries, bits of skin and other body parts from over 100 species. He sees his “frozen ark” as rainy-day insurance for hard-pressed animals. The days of free and easy sex are numbered for many species, not just man.

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Neurology

Clockwatching

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How the brain plays tricks with time

WHETHER or not it is true that a watched pot never boils, scientists think they can now prove that a watched clock does, indeed, stop. This is a reflection of the feeling that many people have when they look at a clock with a hand that shows the passing of seconds. When they first glance at it, the second hand appears to freeze—giving the spooky impression that the act of looking at the clock has temporarily stopped it.

This is a relatively common perceptual illusion. It happens whenever the eye makes a quick movement, known as a “saccade”, from one fixed point to another—from one part of a page to another while reading, for example. A group of researchers, led by Kielan Yarrow of the Institute of Neurology in London, have now investigated it by asking volunteers to make saccades to a numerical counter. Their results appear in this week's *Nature*.

The counter was triggered by the movement of the eye, and it was changed in one-second increments—except for the first digit displayed, which stayed put for a period of time controlled by the researchers. Sure enough, after a saccade, the volunteers thought they had been gazing at the first digit for longer than they actually had. When no eye movement was involved, they were able to gauge the duration of display of the first digit more accurately.

The researchers conclude that, when the eye comes to rest on a new object, the brain extends its perception of that object backwards in time to a point shortly before the eye started moving. This happens whenever there is a saccadic eye movement, but it is noticeable only when an external time reference is present. The illusion is also related to the duration of the eye movement. The longer it takes, the greater the “chronostasis” effect.

Why is the brain, in effect, going to the trouble of rewriting the past and tinkering with perceptions? Unfortunately, the researchers do not yet have the answer to this question; nor do they have a mechanism to explain how the effect works. But one line worth investigating may be the suppression of vision during saccadic eye movements. Quick eye movements lead to a streaky vision of the world and could give a powerful (and sickening) impression of motion while stationary. It seems that during these movements the brain actively suppresses a great deal of visual information. It may be, then, that the brain's time trick is necessary to fill in the perceptual gaps that would otherwise be caused by swift eye movements.

The researchers say that their findings support the notion that conscious experience is a continuous retrospective reconstruction of events, based on information from different parts of the brain. They might have raised a few other questions, too. Was that handshake a particularly warm one? Did those eyes meet for a meaningful length of time across the boardroom table, a crowded room, or the office? Or is it all just a grand illusion?

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About sponsorship

Interstellar dust

Spinning around

Nov 15th 2001
From The Economist print edition

Astronomers are listening to space dust

SOME people fight it, others bite it. Now astronomers are listening to it. Dust, it seems, can do a lot more than just sit around. When floating in space, it will even generate radio signals that tell you what it is like out there.

The first convincing detection of such signals was the final assignment for the 140-foot dish of the National Radio Astronomy Observatory at Green Bank, West Virginia. In the summer of 1999, shortly before the radio telescope was decommissioned, a team led by Douglas Finkbeiner of Princeton University and Carl Heiles of the University of California, Berkeley, pointed it at ten clouds of gas and dust within the Milky Way, the earth's home galaxy. Two of these clouds, they report in a forthcoming paper in the *Astrophysical Journal*, emitted unusual radio waves.

Radio signals were detected at 5, 8 and 10 gigahertz (frequencies used on earth by radar equipment and for satellite-television transmissions), and the signal was stronger at higher frequencies. This suggests that the telescope had seen something that had eluded direct observation for almost half a century: the radio waves emitted by spinning dust particles.

That dust particles spin should come as no surprise. It would be astounding if they did not, for each particle is constantly bombarded by other dust particles, by charged atoms that have been accelerated by some astrophysical process far away, and by the light from stars near and far. What is impressive is the rate at which the particles spin. It has to be equal to the frequency of the radio wave that is emitted, so Dr Finkbeiner's observations imply that many of the dust particles are rotating at ten billion revolutions per second.

The surface of such a particle would be moving at the speed of light if it were a centimetre across—and if centrifugal forces had not shattered it beforehand. But the dust particles that are typical for interstellar clouds in our galaxy are much smaller. They are even tinier than the dust particles left behind by comets that sometimes show up in earth's atmosphere as meteors (such as the Leonids, which are due to put on a show this weekend). Interstellar particles are just a few billionths of a metre across. The smallest, consisting of a few dozen assorted atoms of hydrogen and carbon, could almost be regarded as large molecules, rather than small bits of dust.

The dust particles' size is what causes them to emit radio waves as they spin. Each particle is highly unlikely to have its electric charge spread out perfectly evenly. If it is a tiny particle, even a single electron out of place will have a relatively big effect. As a result, each particle is what physicists call an electric dipole: it is equivalent to a positive charge and an equal negative charge, held apart by a short stick. If you make a dipole turn like a propeller, you have something very much like the alternating current in an antenna, and with the same result: a radio wave is emitted.

Such emissions were predicted separately by two astrophysicists, Subrahmanyan Chandrasekhar (in 1943) and William Erikson (in 1957), but were thought to be too weak to be significant. That changed in 1992, when the COBE satellite made the first microwave map of the sky. This map showed the intensity of the cosmic background radiation, the “after-image” of the flash in which the universe began; but it also showed radio waves of the same frequency emanating from the disk of the Milky Way. This suggested that there was a local (as well as a cosmological) source for these waves. That in turn meant that any precise analysis of the data from COBE—and from the much more precise Microwave Anisotropy Probe (MAP) that is now taking new readings—would have to take these galactic emissions into account.

Since there seemed to be an association between clouds of gas and dust and the extra radio signals that

COBE detected, the theorists went back to their desks, and took a closer look at the earlier work on radio emissions from spinning dust. Three years ago, Bruce Draine of Princeton University and Alex Lazarian of the University of Wisconsin concluded that not all the mechanisms that spin up dust particles had been taken into account, and that spinning dust could indeed be the source of the observed extra microwaves. Dr Finkbeiner and Dr Heiles decided to check, by pointing a radio telescope at some clouds with the right kind of dust and without any other confusing radio emissions.

Those clouds were already visible to astronomers. Dust clouds are routinely studied by analysing the infra-red light they emit. But, says Dr Finkbeiner, he is not looking at quite the same dust. The infra-red light comes from the largest particles in the cloud, which do not rotate all that quickly and so do not contribute to the radio signal. That signal, on the other hand, shows dust that was previously invisible.

A better calibration of the new MAP data of the cosmic background radiation will only be the start. Dr Finkbeiner and his colleagues note in their paper that, since 1940, astronomers have observed radio waves produced by electrons interacting with gas atoms, and by electrons interacting with magnetic fields. A third source added to this toolbox should allow astronomers to clear the cobwebs from many a dusty corner of the Milky Way.

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Computer history

It all started with pies

Nov 15th 2001
From The Economist print edition

The routine use of computers in business is 50 years old this week

“IS THIS the first step in an accounting revolution, or merely an interesting and expensive experiment?” asked *The Economist* in an article devoted to the world's first business computer, nearly 50 years ago. The machine, the Lyons Electronic Office (LEO), was built by Lyons, a British catering company. On November 17th 1951, it ran a program to evaluate the costs, prices and margins for that week's output of bread, cakes and pies, and ran the same program each week thereafter. In February 1954 LEO took on the weekly calculation of the company's payroll, prompting an article in these pages.

Other computers had been used to run one-off calculations for businesses, and many firms used mechanical or electrical calculators. But LEO was the first dedicated business machine to operate on the “stored program” principle, meaning that it could be quickly reconfigured to perform different tasks by loading a new program. It occupied 5,000 square feet of floorspace, contained 6,000 thermionic valves, and its mercury-delay-line memory could hold 2,048 instructions. LEO was built by a team led by John Pinkerton, and its design was based on Cambridge University's EDSAC computer.

In 1954 Lyons spun off a separate company, LEO Computers, to build machines for other firms. Today the company is nowhere to be seen. British firms, unlike their American counterparts, were sceptical about business computing; American manufacturers soon took the lead. LEO Computers vanished in a series of disastrous mergers. “I know of no computer merger anywhere where there has been added value from the merger of competing forces of engineers, marketers and programmers,” David Caminer, LEO's software guru, said last week at a conference to mark the 50th anniversary.

The troubled HP-Compaq merger suggests that the industry has yet to learn this lesson. And one big question remains unanswered. “Might computers not have a valuable contribution to make in improving business efficiency?” asked our 1954 article on LEO. The jury is still out on that one.

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About sponsorship

American foreign policy

Four threads, one mighty rope

Nov 15th 2001
From The Economist print edition

Crass, amateurish and lurching between interventionism and isolationism? American foreign policy is vastly more successful than that, argues a new book

Special Providence: American Foreign Policy and How It Changed the World.
By Walter Russell Mead.
Knopf; 374 pages; $30

THE idea that the United States is a place apart, guided by some exceptional hand, is a recurring one in American history. Ronald Reagan believed that “some divine plan placed this great continent here between the oceans to be found by people from every corner of the earth who had a special love for freedom.” For Walter Russell Mead, of the Council on Foreign Relations, only some “special providence” can explain the way the “jangling and perpetual jostling and quarrels of our domestic interest-groups work themselves out to mandate [foreign] policies that turn out to be practical.” Better than just practical, in fact: Mr Mead believes that America's “unique style...has enabled us to become the richest and most powerful nation in the history of the world.”

In one sense, this is a truism. Yet Mr Mead is definitely on to something. America's behaviour abroad is variously said by critics to be innocent, inconstant or unwise; its policymakers are isolationist, unilateralist or interventionist; its voters are ignorant, detached or short-sighted. Yet America has done remarkably well in promoting its interests in the world, and certainly a lot better than any other country in the 20th century. And though Mr Mead attributes this in part to providence, he also reckons that “we don't just draw lucky cards; we also play the game well.”

Furthermore, he thinks foreign policy has played a much more central role in American history than many Americans believe. His book is partly an attempt to drive that point home. The proposition it puts forward is that democracy is good for foreign policy, whatever may be said by “realists”—professional practitioners ofrealpolitik. Indeed, the strength of American foreign policy has always lain in the fact that it is the product of a democratic system, one that puts a value on money and commerce as much as on military security. Thus, far from being marginal, changeable and divorced from the country's national interest, it has always been central to the experience and concerns of policymakers, and hence relatively stable.

That is certainly not to say that all Americans agree about foreign policy, or ever did. On the contrary, they have always differed sharply. Mr Mead sees four schools of thought. Hamiltonians, he says, regard a strong alliance between government and big business as the key to effective action abroad; their concern

is to have the United States advantageously integrated into the world economy. Wilsonians put the emphasis on America's moral obligation to promote democratic values beyond its borders; the country's national interest, they believe, lies in extending the rule of law throughout the world. Jeffersonians are much more interested in safeguarding democracy at home; they are wary of unsavoury allies and apprehensive about war. Jacksonians are less democratic than populist, believing first and foremost in the physical security and economic prosperity of the American people.

There is much fun to be had with these categories, and Mr Mead has it, taking the reader through each in turn and teasing out the different strands of thought in the episodes and eras of the past 200 years. On the way, he is able to make lots of good points and debunk a host of myths.

The four groupings are far from mutually exclusive, and even some prominent foreign-policy figures (Walter Lippmann) straddle more than one, or move from one to the next over time (Thomas Jefferson himself, the eponymous hero of one school). But many fit easily enough into a single camp. Among the Hamiltonians, for instance, can be numbered Henry Clay, Daniel Webster, Theodore Roosevelt, Dean Acheson and George Bush senior. The Wilsonians include Jimmy Carter, Pearl Buck, various missionaries and neoconservatives. Into the Jeffersonian category go John Quincy Adams, George Kennan and Gore Vidal. By contrast, the Jacksonians get George Washington, Zachary Taylor, Ulysses S. Grant, George Patton and Senator John McCain.

Mr Mead knows he is taking liberties in naming his four schools after historical figures, but justifies it by saying that it encourages clarity of thought about foreign policy present and past. And so it does. Whether it will prove a helpful guide to prediction is another matter: George Bush junior seems to be both a Hamiltonian (a supporter of big business) and a Jacksonian (a defender of American domestic security), but whether his war against terrorism will come to be judged as a triumph for American democracy is not yet clear. Mr Mead offers no ready answers. What he does provide, though, is a highly intelligent analysis of America's foreign policy, which is full of common sense and learning, and is clear and readable to boot.

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About sponsorship

Chinese dissidents

Bitter and bickering

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IT IS lazy and untrue to claim, as many foreigners do, that Communism ended in 1989-91. The Chinese Communist Party was put to the test during those turbulent years—notably by the Tiananmen protests of 1989—and it did not crumble, even though its lies today are patently absurd. The party still rules over 1.3 billion people, a fifth of the world's population, thanks to a Leninist apparatus of power and coercion. “Post-totalitarian” it might be, to use Vaclav Havel's phrase: if the party is a dog, it is a little white around the muzzle, preferring to snooze peacefully by the fire rather than snarl at the gates of Marx. But when called upon by its masters to bite, it still knows how.

Bad Elements: Chinese Rebels from Los Angeles to Beijing
By Ian Buruma

Random House; 398 pages; $27.95.

Buy it at
Amazon.com
Amazon.co.uk

Ian Buruma's “Bad Elements” is mostly about those who have challenged the dog, and been mauled. Most are scattered among émigré communities abroad. A student of Chinese history might think that this group is biding its time, ready to return home as heroes, setting up a decent government when the Communist Party falls at last. After all, Sun Yat-sen, the father of Chinese republicanism, plotted his revolution in Tokyo, Honolulu, Vancouver and London.

Mr Buruma does much to squelch that idea; China's dissidents are a squabbling, petty, embittered lot. At a congressional hearing in Washington in 1999, a fracas broke out amongst dissidents after Wei Jingsheng, newly released from Chinese jail, had testified. Amid the scuffling, one dissident cursed another, telling him to go back to jail and rot.

A pox on all your houses, an outside observer might be tempted to think. Yet the suffering that some dissidents were prepared to endure in the face of the Chinese regime has the power to shock even that hardened congressional leader who put his arm condescendingly around Mr Wei in the lift. “‘Now, tell me, how long were you in jail for?' ‘Eighteen years,' said Wei. ‘Oh my goodness! God bless you, sir.'”

Hardly a good word is said by any dissident about another. This is partly driven by the desire of these strong-willed exiles to establish a pecking order, where those with *zige*—credentials (including your length of stay in prison)—feelentitled to lead: organising conferences, addressing congressional committees, drumming up financial support. Mr Buruma is very good at describing how, so often, émigrés are revulsed by this obvious lack of sincerity, a quality many think of as essentially Chinese; and how they sooften turn to God. Indeed, the author weaves a thread through all those many Chinese rebels who are Christians: exiled dissidents, Taiwanese nationalists, democrats in Hong Kong and even mainland peasants.

But his essential insight about the dissident community is that, in the absence of institutions or mechanisms to resolve political conflicts, feuding and intrigue have taken over. This much the Communist Party has accomplished, in smashing and scattering its opponents. The same insight, though, applies to the party itself, which is China's real tragedy.

Mr Buruma, a fine essayist on Asia, notably in the *New York Review of Books*, is too subtle an observer to shove his conclusions to the fore. At a personal level, he seems to like most those people, such as Dai Qing, a diminutive and bubbly critic with the courage to stay in China, who argue for patience and restraint on the part of the regime's opponents. Revolution, this group believes, is irresponsible, patriotism the curse of every new generation. Still, Mr Buruma does not share Ms Dai's almost exclusive emphasis on ethics, moral education of ordinary people and sincerity from rulers as the surest route to better government. An ancient riddle asks, “Is it good people or good institutions that make for a sound commonwealth?” The answer for China is no different than for anywhere else: it is both. China needs democratic institutions even more urgently than it needs civic virtue, which has been in short supply during its many political eruptions this past half-century.

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Osama bin Laden

Dire warning

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NO ONE can say he didn't warn us. As this timely book clearly chronicles, by the morning of September 11th, Osama bin Laden had been at war with the West for almost a decade.

Holy War, Inc: Inside the Secret World of Osama bin Laden
By Peter L. Bergen

Free Press; 304 pages; $26.
Weidenfeld & Nicolson; £18.99

Buy it at
Amazon.com
Amazon.co.uk

Peter Bergen, a producer for CNN who in 1997 helped interview Mr bin Laden in his lair, ably puts together the little that is known about the man, from his early experiences in Afghanistan—where, as early as 1982, he warned that after Russia, America was the next enemy—to his most recent broadcasts during the weeks of American bombing.

AP

Mr Bergen is firm in his analysis of why Mr bin Laden has launched his *jihad*. The record shows he never rails against Hollywood, pornography or pop. The war, Mr Bergen thinks, is primarily political, rooted in America's policies in the Middle East, above all its presence in Saudi Arabia, described by Mr bin Laden in his 1996 “Declaration of *jihad* on the Americans occupying the country of the Two Sacred Places” as the greatest disaster since the death of the Prophet Muhammad.

This, at least, is not the worst possible news. Mr Bergen does not see the al-Qaeda movement as presaging an open-ended Huntingtonian clash of civilisations. But his book shows just how hard the war against terror will be. Al-Qaeda has operated in at least 20 countries: it recruits from even more. And it is skilled at using the West's technologies—the Internet, satellite telephones, encryption systems—against its enemies. The 1996 declaration, apparently, was written on an Apple Mac.

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Classical music

Riddle of the bands

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FROM the 48 preludes and fugues of J.S. Bach's “Well-Tempered Clavier” to the 12-tone serialism of Arnold Schoenberg, classical music has rested on the foundation of tempered tuning, the division of the eight-note scale into 12 equally spaced pitches. This structural basis is so axiomatic to music theory that it hardly seems worth mentioning that it is, in fact, an artificial convention. Any lover of classical music will be intrigued by this history.

Temperament: The Idea That Solved Music's Greatest Riddle
By Stuart Isacoff

Knopf; 259 pages; $23.

Buy it at
Amazon.com
Amazon.co.uk

Few besides students of music theory are aware that in 1600 what has become our modern scale was regarded as a heretical notion, which sought to substitute many of the numerological harmonic principles, passed down from the ancients as theological truths, with the inferior and unworthy demands of practical expedience. Its introduction was fiercely contested and still occasionally rejected as late as 1800. Without tempered tuning, however, the classical and romantic movements could not have found expression.

Many might feel that this arcane information is unnecessary to the understanding and enjoyment of the great composers. Stuart Isacoff, an American pianist, composer and lecturer, is emphatically not of that opinion. In his new book, “Temperament”, he sets out the story of tempered tuning in a compelling narrative that dispels all doubts as to its importance. The book's most persuasive weapon is the unquenchable passion of its author. From the opening page, which bids one behold the marvel that is a piano, he embarks on a barnstorming tour of western cultural history that may leave the reader disoriented and breathless, but certainly not bored.

Mr Isacoff presents the conundrum of pure mathematical tuning briefly and succinctly, and then he is off on the trail of a solution, rejecting early on an ingenious keyboard which offers 31 divisions for the octave. On the way, he drops in on most of the intellectual centres of the ancient and medieval worlds, and even takes in a quick magic-carpet ride to China before the denouement. He cannot resist getting drawn into disputes, no matter how tenuous their connection with tempered tuning. The number of debates heralded as the greatest or most divisive of the era frequently threatens to belie the use of the superlative. But just as all seems lost, Jean-Philippe Rameau, a Baroque composer whose theories form the basis of the modern study of tonal harmony, emerges from the confusion, for all the world like a *deus ex machina* from one of his operas. Tempered tuning is established and the stage is set for Mozart and his successors.

This is an immensely entertaining, original and informative book. It is also a curiously timely one. Post-war music has seen renewed interest in older tunings as well as experiments with other alternatives, as Mr Isacoff relates in his coda. The fact remains that musical inspiration found its loftiest voice through the language produced by the equal-tempered scale. This reviewer would have liked to see deeper consideration of that mystery and of the apparently universal appeal of tempered tuning, which is perhaps an even greater enigma. But that might be another book. It is ungrateful to complain when a dry, shrivelled topic has been brought to bloom so vividly as this.

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Children's fiction

Terribly good

Nov 15th 2001
From The Economist print edition

Forget Harry Potter. Lemony Snicket's the one

AP

Snicket's sweet smell of success

MANY Americans, especially those aged between 10 and 12, will have read the works of Lemony Snicket. Those who haven't, wherever they live, are in for a treat. They have all eight volumes of Mr Snicket's "A Series of Unfortunate Events" sequence to look forward to. These books are selling by the lorryload in America. Mr Snicket and J.K. Rowling evenly divide the top spots on the *New York Times* children's bestsellers list between them.

Mr Snicket himself is as elusive as a snow leopard. For a long while, grainy black-and-white photographs showed him in silhouette, or in flight from the camera, his shadowy features hidden beneath a crumpled fedora. Some denied his existence outright. When pressed, he admits that his real name is Daniel Handler. "I live in San Francisco," he told *The Economist*, "and recently I have spent my spare time playing contract bridge, brewing aquavit and arguing with my health insurer."

The first book in the series—aptly entitled "The Bad Beginning"—was published in 1999. It opens with a stern warning, which sets the tone for all that follows. "If you are interested in stories with happy endings, you would be better off reading some other book. In this book, not only is there no happy ending, there is no happy beginning and very few happy things in the middle." Sure enough, within a couple of pages the three Baudelaire children, Violet, Klaus and Sunny, have been orphaned and packed off to live with a distant relative, Count Olaf. Count Olaf has cruel, shiny eyes and a strange tattoo on his left ankle. It soon becomes clear that, far from taking in the Baudelaires out of the goodness of his heart, he has dastardly designs on their inheritance, and will go to any lengths to get his hands on it. After this bad beginning, things only get worse for the hapless orphans.

Violet is 14 and endlessly inventive, her younger brother Klaus is bookish but shrewdly resourceful, and baby Sunny's four dangerously sharp teeth are a force to be reckoned with. Count Olaf, meanwhile, is an altogether revolting villain. Engaging characters and exciting stories are certainly part of the books' appeal. Just as important, though, are Mr Snicket's injunctions *not* to read them. Every volume comes with a caveat. "There are many pleasant things to read about, but this book contains none of them"; "If you haven't got the stomach for a story that includes a hurricane, a signalling device, hungry leeches, cold cucumber soup, a horrible villain and a doll named Pretty Penny, then this book will probably fill you with despair"; "I am bound to record these tragic events, but you are free to put this book back on the shelf and seek something lighter". Putting the book back on the shelf is, of course, the last thing any curious reader will want to do.

Mr Snicket has great fun, too, with storytelling conventions. He will interrupt the narrative to point out a device that he is about to employ. "Dramatic irony is a cruel occurrence, one that is almost always upsetting, and I'm sorry to have it appear in this story, but Violet, Klaus and Sunny have such unfortunate lives that it was only a matter of time before dramatic irony would rear its ugly head."

In a recent article in the *New York Times*, Mr Handler (doffing his Lemony Snicket guise) put his finger on what he takes to be the most important factor in his books' appeal to children, particularly in difficult times. "Stories like these aren't cheerful," he concedes, "but they offer a truth—that real trouble cannot be erased, only endured—that is more soothing to me than any determinedly cheerful grin."

"The Carnivorous Carnival", the latest addition to the series, will be published in America by HarperCollins

in July next year. British readers, however, will have to wait. The first three volumes in the series have been published by Egmont Books, with the others still to come. Also forthcoming is “Lemony Snicket: The Unauthorized Autobiography”, which Mr Handler describes as “a collection of material likely to perplex and depress all interested parties”.

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Britain and Bosnia

On its head

Nov 15th 2001
From The Economist print edition

Unfinest Hour: Britain and the Destruction of Bosnia
By Brendan Simms

Allen Lane, The Penguin Press; 486 pages; £18.99

Buy it at Amazon.co.uk

THIS is a flawed book on an important subject. Brendan Simms, a history don at Peterhouse, Cambridge, has written a pitiless requisitory of British failures, blunders and moral blindness in Bosnia-Herzegovina. He concentrates on the period from April 1992, when fighting broke out in the newly independent republic, to November 1995, when its Croat, Muslim and Serb politicians agreed at Dayton, Ohio, to peace within an ethnically partitioned state presided over by a weak federal authority.

Not only, as Mr Simms tells it, did fools and scoundrels control Britain's Bosnian policy. They imposed their ruinous views on Europe as well, and then mischievously prevented the Americans from taking a wiser, more honourable road. A handful of British politicians and soldiers, led by the former foreign secretary, Douglas Hurd, is thus here held to account for a heavy share in the destruction of a European nation, the murder of countless civilians and the deliberate creation of hundreds of thousands of refugees in the cause of a ruthless Serb nationalism.

These are grievous charges. But has Mr Simms got his pyramid the right way up? “Unfinest Hour”, he warns us, is an argument, by which he means a polemic. Every page burns with scorn and indignation. We are told how Mr Hurd and Malcolm Rifkind, then Britain's defence secretary, first formulated a policy of non-intervention at any cost, and how they proceeded to foil every attempt by America and NATO to step in militarily. There follow personalised attacks on David Owen, who mediated in Bosnia, and on General Sir Michael Rose, who led the UN protection force there. Balkan observers in London as well as the British press and parliament are pilloried for flaws of logic, carelessness in formulation, failures of clairvoyance—an odd complaint for a historian—and, more seriously, a collective loss of moral spine.

Mr Simms writes so angrily that it is hard to work out which of these faults bothers him most. There is a strong case—some critics of western inaction made it at the time—that the West should have intervened in force to deter Serb aggression at the start. Had it drawn a firm line earlier—after the attack on Slovenia in the summer of 1991 or after the shelling of the Croatian town of Vukovar that autumn—the map of Yugoslavia might have been redrawn with fewer refugees and less loss of life.

Alas, no western power was ever willing to send troops to rebuff President Milosevic, and he knew it. Perhaps the West exaggerated how many it needed to frighten off Serb units preying on unarmed villagers. Perhaps it paid undue heed to the demands of multilateral action and old rules against intervening in civil wars. Perhaps it never clarified whether its priority should be saving lives, protecting new nations or establishing a stable state system in the wreckage of Tito's Yugoslavia.

For whatever reason, the West chose instead to do a mix of everything—diplomatic mediation, an arms embargo on all sides, an economic embargo against Serbia, UNHCR provision of food and shelter, UN troops to protect the food convoys and, eventually, bombing. To call this non-intervention is a joke. To blame the British alone for the West's refusal to send fighting troops when it mattered is to travesty the record. Given this overarching reluctance, later alliance quarrels about the exact timing of bombing were beside the point.

Mr Simms shows no evidence of understanding the burden of taking decisions, day by day, in uncertainty. He leaps about in time, allowing no strategic sense of what the combatants or those hoping to stop them were at any stage trying to do. This feeling of removal from the conflict itself is reinforced by almost exclusive reliance on American and British sources.

And how great a disaster was it? Western-led UN intervention saved lives. Serbia is democratic. Mr

Milosevic is on trial in the Hague. Refugees are returning. The new regional map may yet endure. Predictions of a lasting rift between Britain and America proved totally unfounded. To his credit, Mr Simms notes many of these points in a concluding chapter, “The Reckoning”, only to discount them as he draws his final balance of dishonourable failure.

This is not to say his book is without value. Mr Simms has plundered Hansard and the London press. He has read diplomatic and military memoirs. He has talked to key diplomats and soldiers (not all of them on the record). As a detailed and impassioned picture of British arguments about the war, “Unfinest Hour” will have serious uses. As a contribution to understanding the West's successes and failures in Bosnia, it has, regrettably, the force of an inkpot thrown from a schooldesk.

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Literary biography

Unprivate lives

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FEW writers' private lives have attracted as much interest as those of the late poet laureate, Ted Hughes, and his first wife, Sylvia Plath, who committed suicide in 1963 during the acrimonious break-up of their marriage. Plath's memory soon became a site of conflict—some feminists even accused Hughes of having as good as murdered her. Her story has been told time and again by biographers, whom Hughes compared to a pack of ravening dogs feeding on her corpse.

Ted Hughes: The Life of a Poet
By Elaine Feinstein

Norton; 288 pages; $29.95.
Weidenfeld & Nicolson; £20

Buy it at
Amazon.com
Amazon.co.uk

Elaine Feinstein has been brave to take on a subject who plainly did not want his own life written. As someone who knew Hughes, though only slightly, she manages to avoid being sucked into the vortex of blame and sensationalism, and she maintains a detached, unjudgmental but ultimately sympathetic tone. Her Plath is not a madwoman; nor is she the innocent victim of a savage Heathcliffian husband. In quoting Hughes's refreshingly uncomplicated reminder that the pair of them were “just kids” she invites us to feel compassion for them both.

The main uncharted territory she maps has to do with Assia Wevill, the woman for whom Hughes left Plath, and who later killed herself and their child in an intensified replay of the earlier tragedy. Plath has been criticised for appropriating—and devaluing—the imagery of Nazis and death camps to describe her own inner life. For Wevill, a German Jewish refugee, these horrors had a personal reality. Photographs show her to have been astonishingly beautiful, but her surface poise and sophistication masked great vulnerability.

Out of what seems like politeness, Ms Feinstein has almost nothing to say about Hughes's relationship with his widow, Carol, who shared his life for nearly 30 years. Such gaps are the inevitable, and perhaps admirable, result of a biographer striving to maintain the ethical high ground, but they can't help but stimulate the reader's ignoble curiosity. To what extent do great writers forfeit their own and their families' privacy? In an attempt to defend himself against his wife's biographers, Hughes tried to argue that we each own the facts of our own lives. Yet, just before he died, he put his life squarely into the public arena by publishing “Birthday Letters”, a verse account of his relationship with Plath. Morally, culturally, emotionally, Hughes is one of the knottiest subjects for literary biography. Ms Feinstein has made a creditable start to unravelling his enigma. So long as the tell-all fashion lasts, other biographers will go on trying to untie the knot.

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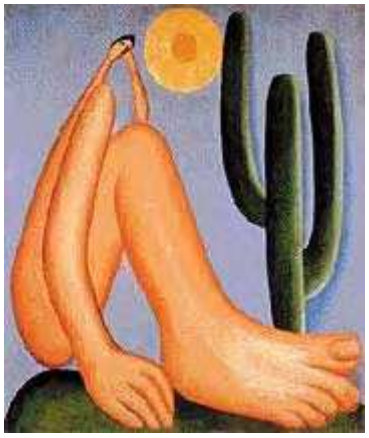
Art in Latin America

Into the mainstream

Nov 15th 2001 | BUENOS AIRES
From The Economist print edition

A new museum offers a rare regional perspective



“Abaporu”, a Brazilian original

WITH its leafy avenues of *belle-époque* mansions, its theatres, café society and late-night bookshops, Buenos Aires has long regarded itself as the most cultured city in South America. But in the visual arts, Argentina's capital is a disappointment. Sao Paulo has its *Bienal* of modern art, and important public galleries, but Buenos Aires has had to make do with a modest fine-arts museum.

Now, despite a national financial crisis and a three-year recession, that gap is finally starting to be filled. The Museum of Latin American Art of Buenos Aires (MALBA), which opened recently, houses the world's most important collection of 20th-century art from the region, assembled over the past three decades by Eduardo Costantini, an Argentine stockbroker and construction magnate.

Three things mark out Mr Costantini from other Latin American collectors. The first is his desire to create an institution to put the works on permanent public display (unlike, say, the larger Cisneros family collection in Venezuela). To that end, he has spent $30m on a handsome purpose-built museum in the city's Palermo district. Designed by three young Argentine architects from Cordoba, the museum includes a cinema and cultural centre as well as two floors of gallery space overlooking an open atrium backed by a glass wall. The overall effect is to allow the works to speak for themselves.

Secondly, Mr Costantini is not just interested in Argentine artists or a particular school. He has tried to bring together representatives of many of the region's main artisic developments. There are a few notable gaps, but the result is an extraordinarily rich sampler of Latin American contemporary art. It captures the multiple refractions from the encounter between European modernism and an emerging national consciousness that in some places drew heavily on an idealised indigenism—such as the images of a heroic pre-Columbian past so often conjured up in Diego Rivera's murals—and in others aspired to a conscious celebration of a new world.

MALBA does not just showcase Latin American post-impressionists, surrealists and expressionists. It also demonstrates the less well-known but enduring influence in the region of constructivism and abstraction. Its strongest work is from the River Plate region—by Argentine artists such as Antonio Berni, a social realist; Xul Solar, a close friend of Jorge Luis Borges and an artist whose work is often compared to Klee, his friend Emilio Pettoruti, a Cubist; Uruguay's Pedro Figari, who became a painter only at 60, and Joaquin Torres-Garcia who designed stained-glass windows with Gaudi and later founded a hugely influential constructivist school in Montevideo. Brazil is well represented too, but Mexico, the Andean countries and the Caribbean more sparsely. For the opening exhibition, these gaps were partly filled through loans.

The third thing is that although the collection, with just 228 works, is not large, it is of very high quality. It includes Tarsila do Amaral's “Abaporu”—a strange, distorted figure by Brazil's most original modernist—a Frida Kahlo self-portrait and a fine Cubist portrait by Rivera. Agustin Arteaga, MALBA's Mexican curator, says it emphasises the region's diversity and “dramatic cases of coincidence” in which artists working in different countries shared similar stylistic developments. Many artists also shared similar preoccupations: a strong sense of social realism, political commitment, interest in folk art and pre-Columbian artefacts, and often, an extravagant sense of colour. Many have drawn heavily on European styles (painters like Figari, Torres-Garcia and Rivera lived for long periods in Paris), but that

traffic has also travelled the other way. Mexico's David Alfaro Siqueiros dripped paint across canvas before Jackson Pollock, who was once his pupil.

Latin Americans have also been in the vanguard of kinetic art, conceptual art and minimalism. “We want to reinsert Latin American art into western art,” Mr Arteaga says. MALBA helps to do that. It will also be joined soon by another purpose-built new gallery, housing the collection of Argentine art owned by Amalia Lacroze de Fortabat, a cement magnate. In Argentina's hard times, this cultural effort gives Buenos Aires something to be proud of.

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Régine Cavagnoud

Nov 15th 2001
From The Economist print edition

Régine Cavagnoud, France's brightest sporting star, died on October 31st, aged 31

AP

ONE way to look at the short life of Régine Cavagnoud is that it was thrown away recklessly and needlessly. She died after colliding with a ski coach who was on the slopes. The collision seems not to have been her fault. Indeed, no one has been blamed. In Europe it is difficult to find high-quality skiing sites to practise on this early in the season, and the one used by Miss Cavagnoud may have been crowded. That said, there seemed to be an inevitability about the tragedy. Many times previously Miss Cavagnoud had been badly injured on the slopes while pushing herself to her natural limits, and probably beyond, in her drive to become a world champion.

Since her death, there have been cautionary words generally about the need for more regulation, and some observers have expressed surprise that she was on the slopes at all so soon after being injured in a skiing accident in Chile in August. But no such adverse comment has been heard in her native France. There she is, quite simply, a national heroine.

The French prime minister, Lionel Jospin, said Régine Cavagnoud had come “to embody” France's passion for skiing. Mr Jospin, not by nature an emotional man, used the verb *incarner*, with its religious overtone. At her funeral last week, much covered on television, there were similar sentiments. The French do take their sport seriously; and Miss Cavagnoud, with her red hair and blue eyes and her blazing courage was seen as a goddess by sports writers and their readers. She was only 31 and looked younger. She could become a candidate for the popular immortality that is sometimes, and mysteriously, bestowed on those who die young. James Dean, who made only three films before crashing his sports car at the age of 24, is one of the youthful pantheon. Buddy Holly, who died in an air crash at 22, is another. Some would be happy to beatify Princess Diana. Like her, Régine Cavagnoud died with her promise unfulfilled.

A catalogue of injuries

Her earliest recollection of skiing was when she was three. Her father was a carpenter at La Clusaz, a town in the French Alps where she was brought up. But when winter came he helped out at the local ski lifts, and Régine went with him. In the snowy places of the world children soon learn to ski, but Régine showed enough talent to be spotted when she was a teenager by scouts for the French national team. She joined the junior section at 16. A year later she had the first of the injuries that were to mark her career for the next 15 years. She tore the ligaments in her left knee. A little later she hurt her right knee. She broke a shoulder bone and several times hurt her back. Once she skied while wearing a surgical collar. Still, between injuries she became a regular with the French team. “After every injury”, she said, “I told myself that it was not over. My passion for skiing just carried me through.”

Her talent was slow to show results. In Japan in 1993, seven years into her skiing career, she could only manage 11th place in a downhill event. Medals were rare in the next few years. Still, the French had faith in her. She took part in three Olympics and would have been a probable choice for the Olympics at Salt Lake City next year. She became a world champion in February at St Anton in Austria, winning the coveted title known as the super-G. The G stands for giant slalom, the winding course that takes its name from the Norwegian word for a sloping track. Miss Cavagnoud was the first Frenchwoman to win a world skiing title for 17 years.

Hurtling down a mountain on skis is the fastest a human being can travel on land without a mechanical aid. The record is 248km per hour (154mph). When slaloming in the super-G you go at less than half

that speed, but it is still a heart-stopping way to travel as you manoeuvre the twists and turns. Unlike recreational skiers, who tend to slither at turns, class skiers seek to check the slide to keep up their speed. On her last fatal run Miss Cavagnoud was travelling at such a speed that she just could not avoid a crash. There was something in her make-up that demanded speed. When she wasn't on the slopes she was roaring along mountain roads on her powerful motor-bike. “Twice I have given myself a fright,” she recalled, but she would not give up biking. Hunter Thompson, an American writer, put the urge like this,

> Faster, faster, until the thrill of speed overcomes the fear of death.

Miss Cavagnoud did feel fear. Considering the risks involved, there have been relatively few deaths on the slopes: 11 in first-class skiing over the past 30 years. Ulrike Maier of Austria was the previous woman skier to die on the slopes: she broke her neck in 1994 when she hit a post. But many skiers are badly injured. Miss Cavagnoud dreaded ending up in a wheelchair. But even more, she said, she dreaded doing badly. As some actors do, she had psychiatric help to relax her for her next performance. If there was something of an actor in Régine Cavagnoud, she saw the admiring people of La Clusaz as her audience. They elected her to the local council. When she won her world title they wanted her to give up competing. She said she thought she would soon. “I really want to have children,” she said.

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Overview

Nov 15th 2001
From The Economist print edition

The **American economy** had a boost in October, thanks largely to zero interest-rate financing for new cars. The value of retail sales rose by 7.1%, the biggest increase ever. Sadly, retail sales are likely to drop back next month, as the effects of the incentives run out. But even excluding cars, retail sales rose by 1.0% in October. The dollar reached a three-month high against the euro, on new hopes for a revival in consumer demand.

The American economy remains largely free of inflationary pressures. Producer prices fell by 1.6% in October, the largest monthly drop since 1947. Petrol and new-car prices saw the biggest decline.

The University of Michigan's preliminary consumer-sentiment index rose unexpectedly to 83.5 in early November, from 82.7 in October. Nonetheless, consumer confidence remains at its lowest level in nearly ten years.

Low interest rates are having an effect on American homeowners, as applications to refinance homes rose to a new record.

In the **euro area**, **German** retail sales fell by 2.1% in the year to September. The ZEW expectations index, which measures the balance between positive and negative expectations for the next six months, rose to 13.1 in November from 9.8 last month, defying predictions that it would fall. The German government's independent team of economic advisers predicted a rise in GDP of only 0.7% in 2002, compared with the government's official forecast of 1.25%.

In **France**, retail sales fell by 1.2% in the year to September. Annual consumer-price inflation increased to 2.6% in October from 1.6% in September.

In the year to October, consumer prices rose by 4.3% in the **Netherlands**, by 3.0% in **Spain**, by 2.2% in **Denmark** and by 2.7% in **Sweden**. Retail sales in Sweden rose by 4.3% in the year to September.

In October, the number of people out of work in **Britain** recorded its biggest monthly increase since November 1998. The claimant-count rate of unemployment remained at 3.2%, up from August's record low of 3.1%. In the year to October, producer prices fell by 0.6%, while retail prices rose by 1.6%.

Oil prices hit a near two-year low after OPEC put off its planned production cuts because Russia and other non-OPEC countries refused to join in.

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Output, demand and jobs

Nov 15th 2001
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	latest	latest	latest	year ago
Australia	+ 3.6	+ 1.4 Q2	+ 2.1	+ 3.1	– 0.4 Q2	+ 5.8 Q3	7.1 Oct	6.0
Austria	+ 0.2	+ 1.2 Q2	+ 1.5	+ 1.3	+ 1.6 Aug	– 1.1 Jul	3.9 Sep	3.6
Belgium	– 2.4	+ 1.7 Q2	+ 1.4	+ 1.4	– 2.6 Aug*	+ 2.8 Aug	11.7 Sep*	11.5
Britain	+ 2.4	+ 2.2 Q3	+ 2.2	+ 1.8	– 3.0 Sep	+ 5.7 Oct	5.1 Sep†	5.4
Canada	+ 0.4	+ 2.1 Q2	+ 1.5	+ 1.5	– 3.2 Aug**	+ 3.5 Jun	7.3 Oct	6.9
Denmark	+ 2.4	+ 1.3 Q2	+ 1.2	+ 1.5	– 3.2 Sep	– 0.5 Aug	5.0 Sep	5.5
France	+ 1.1	+ 2.3 Q2	+ 1.9	+ 1.3	+ 1.0 Sep	– 1.2 Sep	9.1 Sep	9.4
Germany	– 0.1	+ 0.6 Q2	+ 0.7	+ 0.9	– 2.6 Sep	– 2.1 Sep	9.5 Oct††	9.3
Italy	+ 0.6	+ 1.9 Q3	+ 1.8	+ 1.2	– 4.3 Sep	+ 0.2 Aug	9.4 Jul	10.5
Japan	– 2.9	– 0.7 Q2	– 0.6	– 0.5	–12.7 Sep	– 2.5 Sep	5.3 Sep	4.7
Netherlands	– 1.5	+ 0.4 Q3	+ 1.3	+ 1.4	– 2.2 Sep	+ 2.3 Aug	2.0 Sep§	2.5
Spain	+ 1.9	+ 2.9 Q2	+ 2.7	+ 2.0	– 2.5 Sep	na	13.0 Sep	13.8
Sweden	+ 1.3	+ 1.4 Q2	+ 1.7	+ 1.9	– 1.3 Aug	+ 4.3 Sep	4.0 Sep*	4.1
Switzerland	+ 1.7	+ 2.0 Q2	+ 1.5	+ 1.2	+ 4.2 Q2*	+ 1.7 Sep	1.9 Oct*	1.7
United States	– 0.4	+ 0.8 Q3	+ 1.0	+ 0.8	– 5.8 Sep	+ 0.9 Sep	5.4 Oct	3.9
Euro area	+ 0.2	+ 1.7 Q2	+ 1.5	+ 1.2	+ 0.4 Aug	+ 1.8 Aug	8.3 Sep	8.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 6.7	+ 0.4 Q2	na	na	– 3.5 Sep	+ 3.9 Jul	8.7 Sep*	9.1
Greece	+ 2.8	+ 4.9 Q2	na	na	+ 1.0 Jun*	+ 8.3 Jul	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.2 Sep	1.2
Ireland	na	+13.2 Q1	na	na	+ 3.8 Sep*	+ 2.1 Aug	3.9 Oct	3.7
Luxembourg	na	+ 8.52000	na	na	+ 2.7 Jul*	+ 8.2 Jul	2.4 Aug	2.7
New Zealand	+ 7.4	+ 2.8 Q2	na	na	+ 3.5 Q2*	+ 6.3 Q3	5.2 Q2	6.1
Norway	+ 0.5	+ 1.4 Q2	na	na	+ 1.9 Sep*	nil Sep	3.6 Q3	3.5
Portugal	+ 1.6	+ 2.5 Q2	na	na	– 0.2 Sep*	+ 2.0 Sep	3.9 Q2	3.8

*Not seasonally adjusted. † Jul-Sep; claimant count rate 3.1% inSep. §Jul-Sep.**New series. ††EU harmonised rate 8.0% in Oct.

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Prices and wages

Nov 15th 2001
From The Economist print edition

% change at annual rate

	Consumer prices* latest		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	The Economist poll consumer prices forecast 2002	Producer prices* latest		Producer prices* year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.5	Q3	+ 6.1	+ 4.2	+ 2.5	+ 2.4	Q3	+ 7.2	+ 3.6	Q3	+ 6.5
Austria	+ 2.6	Sep	+ 3.0	+ 2.5	+ 1.5	– 0.5	Oct	+ 6.0	+ 2.9	Sep	+ 1.9
Belgium	+ 2.4	Oct	+ 3.0	+ 2.5	+ 1.6	+ 0.7	Aug	+ 9.2	+ 3.7	Q3	+ 1.4
Britain	+ 1.6	Oct	+ 3.1	+ 2.1	+ 2.2	– 0.6	Oct	+ 2.7	+ 4.4	Sep	+ 4.1
Canada	+ 2.6	Sep	+ 2.7	+ 2.8	+ 1.9	+ 0.5	Sep	+ 4.0	+ 1.4	Aug	+ 2.6
Denmark	+ 2.2	Oct	+ 2.7	+ 2.3	+ 2.0	– 0.3	Oct	+ 6.9	+ 4.7	Q2	+ 3.3
France	+ 2.6	Oct	+ 1.9	+ 1.8	+ 1.2	– 0.2	Sep	+ 6.6	+ 4.2	Q2	+ 5.4
Germany	+ 2.0	Oct	+ 2.4	+ 2.5	+ 1.3	– 1.1	Oct	+ 7.4	+ 1.9	Aug*	+ 2.1
Italy	+ 2.5	Oct	+ 2.6	+ 2.7	+ 1.7	+ 0.4	Sep	+ 6.7	+ 2.4	Sep*	+ 1.7
Japan	– 0.8	Sep	– 0.8	– 0.7	– 0.7	– 0.5	Oct	+ 0.3	– 0.4	Sep*	+ 1.5
Netherlands	+ 4.3	Oct	+ 3.1	+ 4.7	+ 2.2	+ 0.5	Sep	+ 8.8	+ 4.1	Sep	+ 3.4
Spain	+ 3.0	Oct	+ 4.0	+ 3.7	+ 2.3	+ 0.6	Sep	+ 5.5	+ 2.9	Q2†	na
Sweden	+ 2.7	Oct	+ 1.4	+ 2.4	+ 1.9	+ 1.1	Sep	+ 4.0	+ 3.2	Aug*	+ 3.3
Switzerland	+ 0.6	Oct	+ 1.3	+ 1.3	+ 1.1	– 1.4	Oct	+ 2.6	+ 1.3	2000	+ 0.3
United States	+ 2.6	Sep	+ 3.5	+ 3.0	+ 1.8	– 0.4	Oct	+ 3.7	+ 4.1	Oct	+ 3.9
Euro area	+ 2.5	Sep	+ 2.8	+ 2.6	+ 1.6	+ 0.7	Sep	+ 6.3	+ 3.0	Q2	+ 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.9	Oct	+ 4.1	na	na	– 2.1	Sep	+ 9.6	+ 4.8	Q2*	+ 4.6
Greece	+ 2.8	Oct	+ 4.0	na	na	+ 3.1	Aug	+ 7.9	na		na
Iceland	+ 8.1	Nov	+ 4.6	na	na	+ 6.8	Oct	+ 3.6	+ 9.1	Sep	+ 7.8
Ireland	+ 4.3	Oct	+ 6.8	na	na	+ 2.6	Sep	+ 6.4	+ 8.1	Q1*	+ 6.1
Luxembourg	+ 2.3	Oct	+ 3.4	na	na	– 0.4	Aug	+ 6.9	+ 5.2	Jul*	+ 8.1
New Zealand	+ 2.4	Q3	+ 3.0	na	na	+ 8.1	Q2	+ 5.9	+ 1.8	Q2	+ 1.7
Norway	+ 2.2	Oct	+ 3.1	na	na	–19.1	Oct	+ 7.4	+ 4.4	Q2*	+ 3.9
Portugal	+ 4.0	Sep	+ 3.4	na	na	– 1.3	Sep	+13.9	+ 2.4	Apr*	na

*Not seasonally adjusted. †New series.

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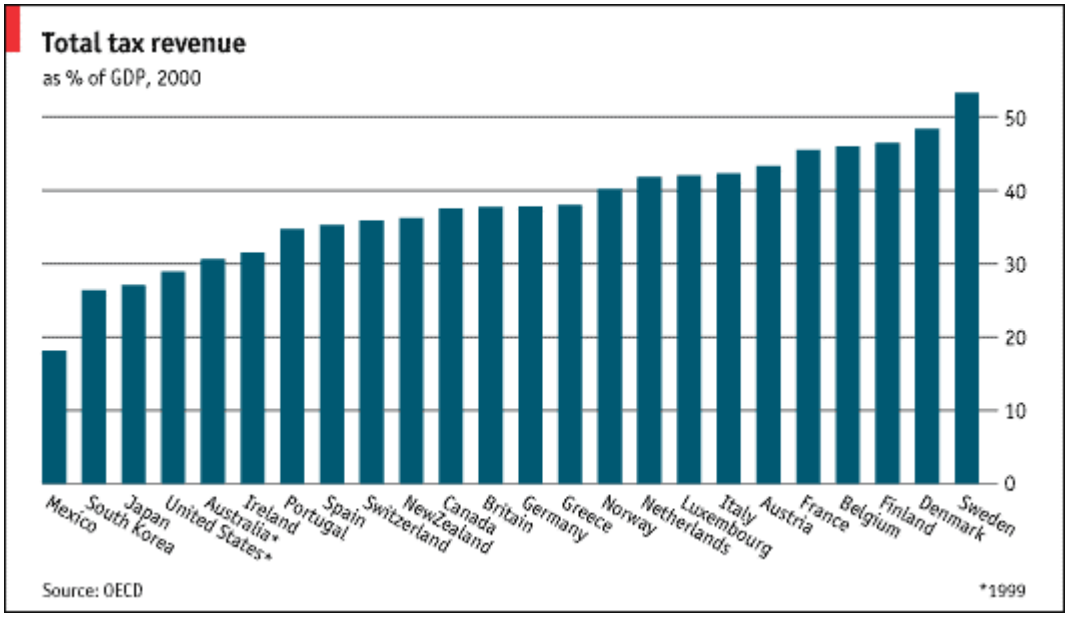
Total tax revenue

Nov 15th 2001
From The Economist print edition



Strong economic growth in 1999 and 2000 pushed up the ratio of tax revenue to GDP in most OECD countries. This year, as a global economic slowdown hits personal and corporate income-tax receipts, the figure is likely to slip. Between 1998 and 1999 the tax ratio rose by an average of 3.5 percentage points in OECD countries; it increased in 21 countries and fell in nine.

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Money and interest rates

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From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Nov 14th 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+19.1	+ 9.9	Sep	4.29	6.31	4.07	5.25	6.02	5.30
Britain	+ 6.3	+ 8.0	Sep	3.81	6.00	4.07	4.52	5.40	5.84
Canada	+10.4	+ 4.5	Sep	2.21	5.73	3.01	5.10	5.76	6.70
Denmark	+ 3.7	+ 2.9	Sep	3.75	5.55	3.70	4.61	5.43	6.98
Japan	+11.7	+ 3.6	Oct	0.02	0.51	0.05	1.33	1.79	1.42
Sweden	+ 5.9	+ 3.1	Sep	3.74	4.00	3.92	4.88	5.07	4.96
Switzerland	+ 1.7	+ 3.2	Sep	2.05	3.48	1.95	3.04	3.74	4.10
United States	+ 9.0	+12.3	Sep	1.90	6.53	2.69	4.52	5.71	6.36
Euro area†	+ 5.2	+ 7.6	Sep	3.34	5.12	3.14	4.41	5.12	5.17

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.92%, Japan No.234 1.33%. Central bank rates: US fed funds 2.00%, ECB refinancing 3.25%, BOJ overnight call 0.003%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Nov 15th 2001
From The Economist print edition

1995=100

	Nov 6th	Nov 13th*	% change on one month	% change on one year
Dollar index				
All items	63.0	64.6	+ 2.9	– 8.3
Food	66.0	67.2	+ 3.0	– 2.7
Industrials				
All	58.9	61.1	+ 2.7	–15.7
Nfa†	56.8	57.5	+ 3.1	–14.3
Metals	60.8	64.0	+ 2.3	–16.7
Sterling index				
All items	68.1	70.6	+ 3.2	– 9.3
Euro index				
All items	92.4	96.3	+ 6.0	–10.8
Yen index				
All items	81.1	83.5	+ 3.1	+ 3.0
Gold				
$ per oz	279.30	277.40	– 1.8	+ 4.9
West Texas Intermediate				
$ per barrel	19.75	21.78	– 2.3	–36.9

* Provisional. † Non-food agriculturals.

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Stockmarkets

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From The Economist print edition

Market indices

	Nov 14th	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,267.0	3,425.2	2,867.4	+ 2.4	– 4.6	+ 3.6	– 3.2
Austria (ATX)	1,066.2	1,245.8	1,014.3	+ 1.9	–38.6	– 0.7	– 6.5
Belgium (Bel 20)	2,697.3	3,030.4	2,322.6	+ 0.3	–26.7	–10.8	–16.1
Britain (FTSE 100)	5,240.7	6,334.5	4,433.7	+ 0.5	–24.4	–15.8	–18.7
Canada (Toronto Composite)	7,349.5	9,348.4	6,513.1	+ 2.8	–35.5	–17.7	–22.4
Denmark (KBX)	217.6	294.3	197.8	– 1.0	–27.9	–17.8	–22.4
France (SBF 250)	2,936.5	3,820.2	2,335.3	+ 2.3	–33.1	–22.1	–26.7
(CAC 40)	4,575.1	5,998.5	3,652.9	+ 1.8	–33.9	–22.8	–27.3
Germany (Xetra DAX)	4,953.5	6,795.1	3,787.2	+ 1.9	–38.6	–23.0	–27.5
Italy (BCI)	1,404.0	1,948.4	1,082.9	+ 3.1	–35.7	–26.7	–31.0
Japan (Nikkei 225)	10,086.8	14,529.4	9,504.4	– 1.9	–74.1	–26.8	–31.3
(Topix)	1,019.1	1,441.0	863.4	– 1.9	–64.7	–20.6	–25.4
Netherlands (AEX)	494.2	642.3	396.2	+ 0.8	–29.6	–22.5	–27.0
Spain (Madrid SE)	830.2	963.9	648.6	+ 4.3	–27.6	– 5.7	–11.3
Sweden (Affarsvarlden Gen)	220.5	293.1	177.5	+ 3.6	–44.9	–20.6	–29.2
Switzerland (Swiss Market)	6,416.7	8,135.4	5,110.2	+ 2.6	–23.7	–21.1	–23.1
United States (DJIA)	9,823.6	11,337.9	8,235.8	+ 2.8	–16.2	– 8.9	– 8.9
(S&P 500)	1,141.2	1,373.7	965.8	+ 2.3	–25.3	–13.6	–13.6
(Nasdaq Comp)	1,903.2	2,859.2	1,423.2	+ 3.6	–62.3	–23.0	–23.0
Europe (FTSE Eurotop 300)*	1,245.1	1,545.5	998.9	+ 1.5	–27.0	–18.8	–23.6
Euro area (FTSE Ebloc 100)*	1,083.1	1,404.1	843.6	+ 1.9	–30.1	–22.2	–26.8
World (MSCI)†	993.9	1,249.2	856.6	+ 1.3	–31.4	na	–18.6
World bond market (Salomon)‡	453.5	461.7	420.6	– 1.8	– 1.4	na	+ 2.1

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Schroder Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

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Trade, exchange rates and budgets

Nov 15th 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2001	Current account The Economist poll % of GDP, forecast 2002	Exchange rate trade-weighted† Nov 14th	Exchange rate trade-weighted† year ago	Currency units per $ Nov 14th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	+ 2.3 Sep	− 9.9 Q2	− 2.8	− 3.4	72.6	71.0	1.93	1.92	2.78	1.70	1.58	0.1
Austria	− 5.0 Aug	− 4.2 Aug	− 2.6	− 2.5	99.9	99.1	15.6	16.0	22.5	13.8	12.8	-0.6
Belgium	+ 11.0 Sep	+ 8.9 Jun	+ 4.2	+ 4.4	98.6	97.6	45.7	46.9	65.9	40.3	37.6	0.7
Britain	− 47.4 Aug	− 19.2 Q2	− 1.9	− 2.3	107.0	107.1	0.69	0.70	–	0.61	0.57	1.2
Canada	+ 46.2 Aug	+ 25.5 Q2	+ 2.9	+ 1.9	75.5	77.3	1.59	1.55	2.30	1.41	1.31	2.6
Denmark	+ 7.1 Sep	+ 5.2 Sep	+ 2.0	+ 1.9	101.8	99.7	8.42	8.68	12.1	7.44	6.93	2.9
France	− 0.8 Sep	+ 20.3 Aug	+ 1.5	+ 1.6	101.1	100.1	7.42	7.63	10.7	6.56	6.11	-0.5
Germany	+ 66.2 Sep	− 11.6 Sep	− 1.1	− 0.7	98.0	96.5	2.21	2.28	3.19	1.96	1.82	-1.7
Italy	+ 3.0 Aug	− 1.5 Jul	− 0.2	− 0.1	72.2	71.4	2,191	2,253	3,161	1,936	1,802	-1.3
Japan	+ 77.5 Sep	+ 89.4 Sep	+ 2.0	+ 1.8	139.2	157.3	122	109	175	107	–	-6.3
Netherlands	+ 18.7 Aug	+ 13.7 Q2	+ 4.1	+ 4.3	97.5	96.3	2.49	2.56	3.60	2.20	2.05	1.3
Spain	− 38.2 Aug	− 16.6 Jul	− 2.6	− 2.6	73.9	73.2	188	194	272	166	155	nil
Sweden	+ 12.2 Sep	+ 6.3 Sep	+ 2.1	+ 2.2	74.3	79.4	10.58	10.06	15.3	9.35	8.70	3.6
Switzerland	+ 0.3 Sep	+ 27.9 Q2	+10.7	+10.9	111.8	106.1	1.66	1.77	2.40	1.47	1.37	na
United States	−448.0 Aug	−449.9 Q2	− 4.1	− 3.9	119.8	116.1	–	–	1.44	0.88	0.82	2.1
Euro area	+ 14.6 Aug	− 37.4 Aug	− 0.3	− 0.1	77.7	76.0	1.13	1.16	1.63	–	0.93	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.9 Sep	+ 8.0 Sep	na	na	78.0	76.2	6.66	6.92	9.61	5.89	5.48	5.3
Greece	− 7.4 Jun	− 7.3 Jun	na	na	57.2	56.7	382	396	551	337	314	nil
Iceland	− 0.3 Sep	− 0.9 Q1	na	na	na	na	105	87.3	151	92.5	86.1	2.4
Ireland	+ 30.8 Aug	− 1.5 Q2	na	na	86.7	85.2	0.88	0.92	1.27	0.78	0.73	4.5
Luxembourg	− 3.3 Aug	+ 1.2 Q2	na	na	98.6	97.6	45.2	46.9	65.2	40.0	37.2	3.6
New Zealand	+ 0.4 Sep	− 1.9 Q2	na	na	80.1	74.0	2.39	2.50	3.45	2.11	1.97	1.0
Norway	+ 27.3 Sep	+ 26.0 Aug	na	na	97.3	92.8	8.91	9.35	12.8	7.87	7.33	15.3
Portugal	− 13.8 Jul	− 9.1 Aug	na	na	89.0	88.2	225	233	324	199	185	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

Text refers only to the first 16 countries listed

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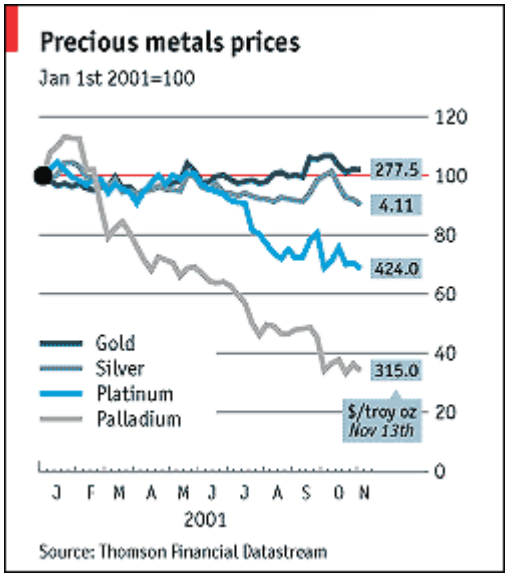
Precious metals prices

Nov 15th 2001
From The Economist print edition

Palladium prices have fallen by more than 60% this year. Silver prices, which surged briefly after September 11th, are now at $4.11 per troy ounce, an eight-year low.



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Overview

Nov 15th 2001
From The Economist print edition

The 12-month rate of growth in **China**'s industrial production slowed to 8.8% in the year to October, but that is still faster than in any other economy in our table. However, export growth slumped to only 0.1% over the same 12 months, down from an increase of 28% in 2000. Chinese consumer prices rose by only 0.2% in the year to October.

New figures show that inflation fell in October in **Russia**, **Hungary** and **Mexico**, but it rose in **Brazil**, to 8.2%, as the decline in the *real* pushed up import prices.

Mexico remains in recession: its industrial production fell by 5.4% in the year to September. **Turkey**'s industrial output fell by 9.2% over the same period.

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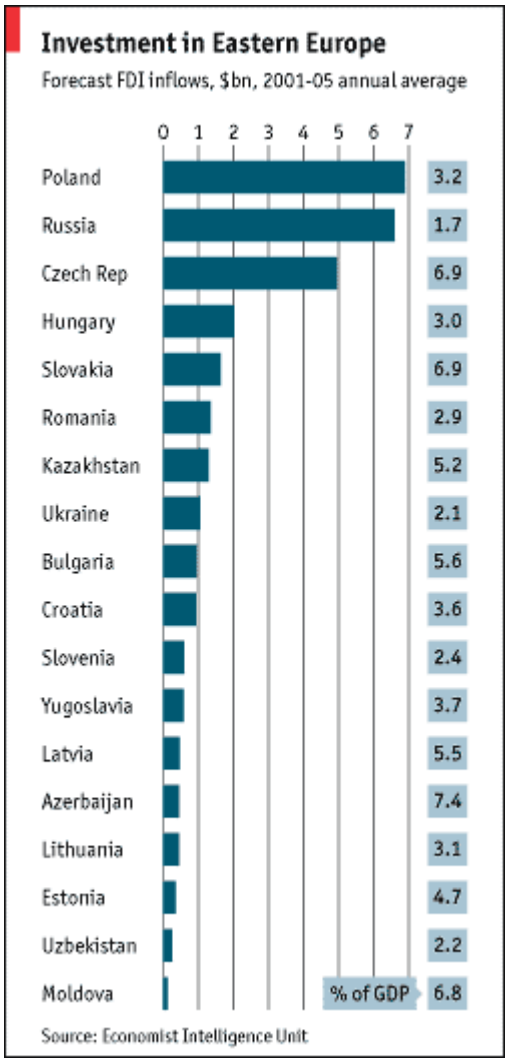
Investment in Eastern Europe

Nov 15th 2001
From The Economist print edition

The Economist Intelligence Unit, a sister company of *The Economist*, predicts that foreign direct investment in Eastern Europe will recover strongly in 2002, after falling in 2001. The EIU expects it to reach $162 billion in 2001-05, up from $119 billion in 1996-2000. The report (which includes ex-Soviet Central Asia) says that the region will become more attractive than other emerging markets, and that western companies will continue to relocate operations there.



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Economy

Nov 15th 2001
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.0	Q3	+ 8.8	Oct	+ 0.2	Oct	+18.6	Oct	+20.5	2000	193.2	Aug
Hong Kong	+ 0.5	Q2	– 0.1	Q2	– 1.2	Sep	–12.3	Sep	+ 8.2	Q2	113.1	Oct
India	+ 4.4	Q2	+ 1.6	Sep	+ 5.2	Sep	– 6.1	Sep	– 0.9	Q2	42.0	Sep
Indonesia	+ 3.5	Q3	+ 7.5	Q1	+12.5	Oct	+24.6	Sep	+ 6.3	Q1	27.8	Aug
Malaysia	+ 0.5	Q2	– 9.7	Sep	+ 1.4	Sep	+15.4	Sep	+ 7.5	Q2	25.4	Sep
Philippines	+ 3.3	Q2	+ 7.8	Aug	+ 5.4	Oct	+ 3.7	Aug	+ 6.0	Jul	12.2	Aug
Singapore	– 5.6	Q3	–22.3	Sep	+ 0.5	Sep	+ 4.5	Sep	+22.6	Q2	75.5	Sep
South Korea	+ 2.7	Q2	+ 5.1	Sep	+ 3.6	Oct	+11.1	Oct	+11.1	Sep	100.0	Sep
Taiwan	– 2.4	Q2	–14.1	Sep	+ 1.0	Oct	+14.1	Oct	+14.1	Q2	116.2	Oct
Thailand	+ 1.9	Q2	– 1.8	Sep	+ 1.4	Oct	+ 2.6	Sep	+ 6.4	Sep	31.9	Sep
Argentina	– 0.5	Q2	– 7.4	Sep	– 1.7	Oct	+ 4.1	Sep	– 8.4	Q2	20.6	Sep
Brazil	+ 0.8	Q2	– 1.9	Sep	+ 8.2	Oct	+ 0.7	Oct	–26.3	Sep	40.1	Sep
Chile	+ 3.4	Q2	+ 0.1	Sep	+ 3.4	Oct	+ 1.6	Sep	– 1.6	Q2	14.4	Sep
Colombia	+ 1.6	Q2	– 0.8	Sep	+ 8.0	Oct	+ 0.9	Aug	– 0.7	Q2	9.7	Sep
Mexico	nil	Q2	– 5.4	Sep	+ 5.9	Oct	– 9.3	Sep	–17.5	Q2	42.8	Sep
Peru	+ 2.3	Sep	– 3.3	Aug	+ 0.7	Oct	– 0.2	Aug	– 1.4	Q2	8.4	Sep
Venezuela	+ 2.9	Q2	+ 3.2	Aug	+12.3	Oct	+15.6	Q2‡	+11.1	Q2	9.0	Sep
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.1	Sep	– 8.8	Jul	nil	Q2	13.1	Jul
Israel	– 2.7	Q3	–10.5	Aug	+ 2.5	Sep	– 7.1	Oct	– 1.4	Q2	23.8	Oct
South Africa	+ 2.5	Q2	+ 0.5	Sep	+ 4.4	Sep	+ 4.6	Sep	+ 0.4	Q2	6.0	Sep
Turkey	– 9.3	Q2	– 9.2	Sep	+66.5	Oct	–17.1	Aug	– 1.2	Aug	19.0	Sep
Czech Republic	+ 3.9	Q2	+ 1.1	Sep	+ 4.4	Oct	– 3.3	Sep	– 2.7	Q2	13.5	Sep
Hungary	+ 4.0	Q2	– 4.4	Sep	+ 7.6	Oct	– 2.1	Sep	– 1.1	Sep	11.8	Oct
Poland	+ 0.9	Q2	– 3.8	Sep	+ 4.3	Sep	– 9.6	Sep	– 6.0	Sep	27.3	Sep
Russia	+ 5.1	Q2	+ 3.8	Sep	+18.9	Oct	+56.7	Sep	+44.6	Q2	34.0	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+10.2	Jun	+ 2.9	Sep	– 1.4	Aug	+ 0.3	2001†	2.2	Sep
Saudi Arabia	+ 4.5	2000§	na		– 0.5	Sep	+50.9	2000	+15.6	2000	17.2	Sep

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series. § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Nov 15th 2001
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 14th		Dec 31st 2000	
	Nov 14th	year ago	Nov 14th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.9	na	1,687.1	+1.5	–23.0	–23.0
Hong Kong	7.80	7.80	11.3	1.78	10,950.0	+6.6	–27.5	–27.5
India	48.1	46.8	69.3	6.71	3,113.0	+3.3	–21.6	–23.9
Indonesia	10,645	9,373	15,355	17.92	372.8	–1.2	–10.5	–18.6
Malaysia	3.80	3.80	5.48	3.30	612.7	+3.5	–9.8	–9.8
Philippines	52.1	49.9	75.1	12.88	997.5	+0.9	–33.3	–35.9
Singapore	1.83	1.74	2.63	0.96	1,366.3	+2.8	–29.1	–32.6
South Korea	1,279	1,137	1,845	4.45	606.7	+7.9	+20.2	+18.9
Taiwan	34.4	32.1	49.7	2.60	4,277.7	+2.9	–9.8	–13.4
Thailand	44.4	43.7	64.1	2.94	267.2	+0.7	–0.7	–3.1
Argentina	1.00	1.00	1.44	55.30	221.5	–6.5	–46.9	–46.9
Brazil	2.54	1.95	3.66	19.04	12,825.6	+1.7	–17.8	–36.8
Chile	687	572	991	4.66*	5,420.8	+2.3	+11.3	–7.0
Colombia	2,305	2,126	3,325	11.44	794.3	+2.1	na	na
Mexico	9.24	9.46	13.3	7.64	5,751.7	+2.0	+1.8	+5.8
Peru	3.44	3.53	5.0	4.25	1,160.6	+1.2	–4.0	–1.5
Venezuela	744	696	1,074	17.00	6,454.0	+0.2	–5.0	–10.7
Egypt	4.26	3.78	6.15	8.30	5,415.5	–3.1	–29.3	–35.5
Israel	4.23	4.12	6.10	3.91	387.0	+2.6	–21.8	–25.2
South Africa	9.67	7.69	14.0	9.00	9,179.9	+5.6	+10.3	–13.7
Turkey	1,542,250	682,620	2,224,696	57.00	10,636.2	+2.6	+12.7	–51.0
Czech Republic	37.6	40.3	54.2	5.08	399.7	+3.4	–16.5	–16.4
Hungary	283	307	408	10.18	7,140.7	+3.7	–9.0	–9.1
Poland	4.10	4.56	5.91	13.97	14,623.0	+8.0	–18.1	–17.4
Russia	29.7	27.8	42.9	25.00	229.3†	+10.6	+66.1	+60.0
EMF (MSCI)‡	1.00	1.00	1.44	na	287.8	+4.5	na	–13.8
EMBI+§	1.00	1.00	1.44	na	201.8	–1.2	na	–0.1

*Inflation adjusted. †In $ terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

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